







## INTERNATIONAL NEWS

Suzuki grilling in parliament embarrasses Miyazawa government

## Japanese ex-premier tells of ¥10m gift

By Robert Thomson in Tokyo

THE government of Mr Kiichi Miyazawa was greatly embarrassed yesterday by the return of a former prime minister, Mr Zenko Suzuki, who told of his dealings with a bankrupt leisure club developer and admitted to receiving ¥10m (\$73,100) from an indicted politician for services rendered.

For the Japanese public, the polite grilling of Mr Suzuki, 81, who retired as MP two years ago, highlighted the unsavoury, though not illegal, contacts cultivated by politicians seeking to fund networks of influence within the ruling Liberal Democratic party (LDP).

Opposition parties had demanded that Mr Suzuki and another senior LDP member, Mr Jun Shiozaki, 76, appear to answer questions about their dealings with Kyowa Corpora-

tion, a now bankrupt property and steel company, and links to Mr Fumio Abe, an LDP member recently indicted on charges of accepting ¥90m in bribes from Kyowa.

The opposition had delayed the passage of Japan's budget to force the LDP to produce Mr Suzuki. It was suggested that he could not appear because of ill-health, but a magazine picture of Mr Suzuki clearly enjoying a round of golf prompted the ruling party to insist that the elder statesman explain how he came to be honorary chairman of a never-completed Kyowa leisure club.

Mr Suzuki admitted that Mr Abe, on the announcement of his much cherished appointment to the cabinet in 1989, had given him a brown envelope, though the former leader said he was surprised to find that it contained ¥10m from

his grateful associate. He suggested that he did not want the money, though he kept it "on behalf of" Mr Abe, returning the same amount to him in November of last year.

Mr Shiozaki expressed similar surprise at receiving ¥20m from Kyowa after he had intervened on the company's behalf to settle a dispute with Marubeni, the famed trading house which had become entangled in a series of fictitious steel contracts concocted by Kyowa in an alleged attempt to defraud several other companies.

"I did not know exactly why I received the ¥20m, but I thought it was remuneration for my consultancy. I did not know about the steel fraud at that time. I did not think Kyowa was trying to bribe me," said Mr Shiozaki, who also asked Mr Abe to take the

money back late last year. A stern Mr Suzuki, who led the country from 1980 to 1982, repeatedly denied allegations that he had received another ¥100m from Kyowa after he had agreed to become honorary chairman of its planned club.

He also said that a widely reported comment that "you can't question me, I'm a former prime minister" was wrongly attributed to him. And he explained that he attended a Kyowa factory opening, when he lauded the company, because "I wanted to visit my grandchildren" in the same district.

The Justice Ministry said yesterday that investigations into the Kyowa case had now concluded, and that no further charges would be laid. However, the scandal has shaken Mr Miyazawa, as it has centred on political fund raising by

## Kurds seek long-term UK aid

By Mark Nicholson, Middle East Correspondent

MR Massoud Barzani, leader of the Kurdish Democratic party, arrived in London yesterday saying he would ask Mr John Major, Britain's prime minister, to provide long-term development aid to enable Iraqi Kurds to become self-sufficient.

He said he would also ask Britain to make a commitment to help protect the Kurds against further Iraqi aggression and to provide observers for elections to be held in northern Iraq in April.

Mr Barzani, who is to hold talks with Mr Major this afternoon, said the combined effects of the United Nations embargo against Iraq and Baghdad's internal blockade of the Kurds threatened to cause a "social explosion" in Iraqi Kurdistan.

Although he said fighting in northern Iraq had calmed considerably in recent weeks, Mr Barzani said the embargoes had caused severe food and fuel shortages.

The Kurdish leader is also hoping Britain, France and the US will extend its commitment to keep protective forces in Turkey, at present comprising 48 fighter aircraft based at Incirlik airbase, beyond the present mandate which runs until June. "As long as there is no political settlement on the ground, it is vital that there are forces there to give long-term protection to the Kurds," he said.

Mr Barzani said Kurdish groups were still seeking a negotiated agreement with Baghdad over Kurdish autonomy, although talks between Kurdish leaders and the regime of Mr Saddam Hussein, the Iraqi president, have been frozen for some months.

## India raises rail fares by 20%

By David Housego in New Delhi

THE Indian government yesterday raised passenger rail fares by about 20 per cent in a move seen as a forerunner of the austerity budget expected later this week.

The sharp increase in fares reflects the pressure on the government to cut the budget deficit through reducing financial support to public sector units.

The railways, the budget for which was presented to parliament yesterday, is the largest of the government-owned enterprises.

The increase, which follows a 10-20 per cent increase in rail fares in July, means that the railways revenue from passenger traffic will rise by 33 per cent in 1992-93 over the original budget estimates for the current year.

Mr C.K. Jaffer Sharief, the railways minister, told parliament the cost of running uneconomic lines had risen

more than fivefold from Rs4m (580m) in 1980-81 to Rs22.25m last year.

In an effort to generate further financial resources, Mr Sharief said that the railways would seek to lease or sell some of the land it owns in central cities - beginning with Bombay.

The armed forces, the largest landowners in the country, are to follow a similar policy as a way of raising funds.

First class fares are to rise by 20 per cent and second class fares by about 17 per cent. Some season tickets will go up by 10-18 per cent.

Mr L.K. Advani, the leader of the Hindu radical BJP party which until recently supported the government's liberalisation and restructuring programme, said the rail minister had "not just been harsh, he has been cruel. As far as I recall such a massive hike in railway fares and freight is unprecedented."

## Demands for interest rate reduction

By Stefan Wagstyl in Tokyo

THE Bank of Japan yesterday faced renewed calls for a cut in interest rates following publication of a government report acknowledging a further deterioration in the state of the economy.

The government's Economic Planning Agency dropped the word "expansion" from its monthly report to the cabinet for the first time since the economic upturn in early 1987. Instead of saying that the economy was "expanding at a slower pace" - the favourite phrase of recent months - the agency said the economic slow down was spreading to a wider range of sectors. The agency's

report echoed recent commentaries by private sector economists who have almost all taken a more pessimistic view than the government.

For the current financial year, ending next month, economists expect a growth rate of about 3.5 per cent against the government forecast of about 3.7 per cent.

For next year, private sector predictions mostly range 2.5 per cent to 3 per cent against a government target of 3.5 per cent.

Ruling party politicians, with an eye on an election to the Diet (parliament) in the upper house this summer, would like

to see measures to stimulate growth, including further cuts in interest rates.

Mr Koza Watanabe, the minister for international trade and industry, yesterday called for a cut in the official discount rate to follow the last reduction in December when the ODR was reduced to 4.5 per cent.

The central bank's position is that it is still examining the effects of the last reduction and of two previous cuts.

However, pressure for further reductions grows almost daily, not least from industrialists anxious about weakening demand, particularly for

## Inquiry ends on 'Keiretsu'

JAPAN'S Fair Trade Commission (FTC) has concluded the country's six biggest corporate groups are becoming less reliant on in-house dealings and their extensive cross-shareholdings do not lead to exclusionary business practices. Robert Thomson reports from Tokyo.

The findings will be presented in Washington today to a follow-up meeting for the US-Japan Structural Impediments Initiative (SII), designed to remove "structural" barriers.

The corporate groupings, or keiretsu, head a list of US concerns about access to the Japanese market; it is unlikely the FTC report will satisfy the US.

## Manila urged to curb security force killings

By Alexander Nicoll, Asia Editor

THE Philippine government should take urgent action to stop unlawful killings by its security forces, according to Amnesty International, the human rights movement.

In a report published today, it says that at least 550 unarmed people, including children and elderly people with no connection to the opposition, have been killed by government or government-backed forces since 1988.

Members of the army, police and officially-backed militia groups and civilian groups have carried out killings, as well as paramilitary and vigilante groups working in collusion with security forces or with their acquiescence.

In addition, hundreds of people have "disappeared" while in police or military custody, Amnesty says.

Abuses of human rights reflect the strong influence of the military in Philippine politics even after the restoration of democracy under President Corason Aquino in 1986. The military has been given considerable freedom to counter armed opposition groups.

Amnesty said the practice of "red-baiting" - publicly identifying alleged opponents of the government as subversives - particularly contributed to the killing.

The Philippines: the killing goes on. Amnesty International. Free.

## NEWS IN BRIEF

## Hyundai chief blames government for woes

THE founder of South Korea's Hyundai group, who has launched a party to challenge President Roh Tae-woo's government, blamed the government yesterday for the financial woes of the group's subsidiaries. Reuters reports from Seoul.

"Hyundai risks defaulting on bills due to the government's persistent credit control and tax investigation imposed on group subsidiaries," Mr Chung Ju-yung, 70, was quoted as saying by a spokesman for his National Unification Party.

Mr Chung initially refused to pay Won136.1bn (\$181.5m) in penalty taxes but later changed his mind. Since then, domestic banks have frozen fresh loans to the group, the tax office has launched a second tax investigation and the Securities Supervisory Board has postponed approval on Hyundai units' rights issues for the sixth time, Hyundai officials said.

## Daewoo halts N Korea project

Daewoo, South Korea's fourth-largest business group, said yesterday it was suspending its plan for the first joint ventures with North Korea. Disappointed by the outcome of talks between the prime ministers of North and South last week, Seoul said any economic exchanges would be banned until North Korea allowed inspection of nuclear facilities. In Washington yesterday, Mr Robert Gates, director of the CIA, said that North Korea could have a nuclear weapon in as little as a few months.

## Indonesia bans Portuguese ship

Indonesia yesterday banned from its waters a Portuguese ship planning to sail to East Timor to mark an army massacre of civilians. Reuters reports from Timor.

The foreign ministry said the planned visit by the Lusitania Express, which left Lisbon last month, was politically motivated to aggravate tension in East Timor and incite disturbances.

The vessel is due to call at Darwin in north Australia before sailing to the East Timor capital Dili, where it is expected around March 3. Those travelling on the ship intend to lay a wreath at the cemetery where Indonesian troops killed scores of mourners last November. Indonesia annexed East Timor, a former Portuguese colony, in 1976 in a move which remains unrecognised by the United Nations.

## Opec questions global warming

An Opec official questioned the phenomenon of global warming yesterday and said a proposed Opec tax on oil exports was a ploy to control world energy markets. Reuters reports from Cairo.

"We do not know whether global warming is a certainty or not," Mr Mohammed al-Sahlawi, head of Opec's news agency, told a symposium of economists. "Is there really a man-made problem, or is it part of a natural cycle?"

Brussels plans to introduce a tax of \$1 per barrel of oil in 1993 to fight global warming and curb demand for oil. The tax would rise to \$10 a barrel by the year 2000.



Tourists make their way along the outer wall of Jerusalem's Old City past snow-covered palm trees as winter storms hit the region

## Israeli loans guarantee

By George Graham in Washington

## US aid budget comes under scrutiny

By George Graham in Washington

THE fate of the US foreign aid budget has become inextricably tied up with that of Israel's request for \$10bn (\$5.7bn) of loan guarantees to help it absorb around 1m new immigrants from the former Soviet Union.

Authorisation for US foreign aid is due to expire at the end of March, but Senator Patrick Leahy, who chairs the Senate subcommittee overseeing foreign aid funding, says he will not put forward a new aid bill unless an agreement could be reached that ties the Israeli loan guarantees to some sort of freeze on Israeli settlements in the Arab territories it occupied in the 1967 war.

"If we do not have a solution to the guarantees and settlements issue, then we don't have a bill - it's as simple as that," he said yesterday.

When it has fallen out with the US administration in the past, Israel has often been able to call on support in the Congress to make its views prevail. Today, locked in an apparently irreconcilable dispute with the administration, it faces an uphill struggle.

Mr James Baker, US secretary of state, told Congress on Monday he would accept \$2bn a year of loan guarantees for the five years only if Israel halted settlement activity, or agreed to deduct from the guarantees the amount it spent in the occupied territories.

Even Israel's strongest supporters, meanwhile, are not eager to force the issue. They believe they would probably lose a straight majority vote, and would certainly be unable to muster enough support to override a presidential veto.

"It's given that any sort of guarantee arrangement, in order to be sellable here, would have to be tied to pretty substantive restrictions on settlements," said one congressional aide yesterday.

The debate is taking place at a time when there is little enthusiasm either among congressmen or in the US at large for foreign aid in general. At the same time, Israel's position in the US public opinion has weakened in recent years. The Palestinian uprising and Israeli tactics against it have contributed substantially to this.

A central factor, however, has been President George Bush's public stand against Israel, particularly in the September press conference when he called for a four month delay on the loan guarantees and depicted himself as standing alone against hordes of Israeli lobbyists.

Mr Bush said yesterday that his administration's policy might be risky for his re-election campaign this year, but that he would not "shift the foreign policy of this country because of political expediency."

In purely electoral terms, however, he and the Republican party have little to lose, since the Democrats habitually win over 70 per cent of Jewish votes.

Many members of Congress have concluded, moreover, that they can afford to oppose the loan guarantees.

If no foreign aid bill goes forward, congressional lobbyists say there would be little chance of attaching the loan guarantees to the continuing resolution, simply carrying forward past authorisations, that would probably be used to allow programmes to survive.

Blank cheque to negotiate a power-sharing constitution, which amounts to black rule without black domination. While few whites - even in the ruling party - really believe he can achieve that, but the campaign could turn on Mr de Klerk's powers of persuasion as he is called on to defend his policies in detail for preventing domination.

On the other hand, many whites will not want to pass up their last chance to keep blacks out of power, knowing they will be given no further opportunity to stop the reform process. If Mr de Klerk wins, he will implement a new constitution without seeking ratification.

But the "no" vote will be diluted by divisions on the right: the ultra-right Afrikaner Weerstandsbeweging (Afrikaner Resistance Movement) has called for a boycott, and other radical groups could follow suit.

Moreover, at the national level, every mass circulation daily in the country will push for a "yes" vote.

And though the state-controlled South African Broadcasting Corporation will probably guarantee equal air time for opponents and proponents, its political bias is likely to show through as clearly now as in the past: the SABC supports the ruling party.

## Stark choice for white voters

Patti Waldmeir on Domesday threats in S Africa's referendum

ARE YOU going to vote for a good future, or a good past?

This is the question that over the next three weeks Mr Derek Christophers, a member of parliament for the ruling National party, will put to thousands of his constituents in the conservative Johannesburg suburb of Germiston. He will lunch them, dine them, visit them at home, to plead for their support in South Africa's March 17 referendum. His message is simple: "Vote for us, or vote for war."

The referendum, the date for which was announced on Monday by President F.W. de Klerk, will face South Africa's whites with the biggest political choice they have ever been asked to make: whether to abandon their 350-year position of dominance in favour of sharing power with a black majority, or to fight for racial purity in a homeland which would become an international pariah.

"All the (opposition) Conservatives can offer people," says Mr Christophers, who helped plan the National party's campaign, "is a good past." His party's message that a "yes" vote would lead to a prosperous and secure future.

As could be expected, the wording of the question favours the ruling party and is designed to be vague enough to win approval from all but the most committed white supremacist: "Do you support continuation of the reform process which the State President began on 2nd February, 1990, and which is aimed at a new constitution through negotiation?"

February 2, 1990, was the date on which Mr de Klerk legalised black political opposition.

On the other hand, the proffered consequences of a "no" vote are designed to concentrate the mind: Mr de Klerk would resign and call a general election, which the Conservatives would win on a pro-apartheid ticket.

Black liberation groups would resume violent struggle, and international sanctions would be applied with a vengeance. Skilled whites would emigrate, international lending would stop, and South Africa's future would be bleaker than ever.

Mr de Klerk is clearly hoping that the NP, liberals and everyone to the left of the most hard-line racist will turn out to avoid that outcome.

But he knows that his support is based more on fear of the alternative than positive approval of his policies, which are too vague to inspire much confidence.

He is, in effect, asking for a

blank cheque to negotiate a power-sharing constitution, which amounts to black rule without black domination. While few whites - even in the ruling party - really believe he can achieve that, but the campaign could turn on Mr de Klerk's powers of persuasion as he is called on to defend his policies in detail for preventing domination.

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The lacklustre Mr Treurnicht referenced several times to the possibility of defeat, he and other top party leaders are understood to have preferred a boycott, but their caucus insisted on a fight - and with his subdued delivery and outdated rhetoric he did little to inspire the troops.

Indeed, the urbane and modern Mr de Klerk would win a straight personality contest hands-down.

But the question facing South Africa's 3m white voters is more elemental than that: Afrikaners feel their language, their culture, their history are at risk; other whites fear economic parity.

Mr de Klerk's performance may be more impressive, but Mr Treurnicht's message - that whites can only survive in a separate homeland loosely federated to neighbouring black states - strikes a powerful chord.

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## Israel worries about future US pressure

By Judy Maltz in Jerusalem

MR Benjamin Netanyahu, Israel's deputy prime minister, said yesterday Israel would reject a US ultimatum linking the provision of \$10bn (\$5.7bn) in loan guarantees to a halt on Jewish settlements in the occupied territories.

He warned that if the Jewish state accepted this ultimatum, it would find itself under pressure to succumb to further American demands in the future.

"Any government - I hope a responsible government, and Israel is one - will draw a line and say no. Don't pile on pressure when it comes to human consideration. We will stand and we will not adopt this draconian choice between land and people," Mr Netanyahu told reporters in the first official reaction to the ultimatum to come out of prime minister Yitzhak Shamir's office. Mr Shamir himself remained silent.

Ever since it became clear Washington would issue the ultimatum, some Israeli politi-

cians have said the US may be using the loan guarantees in order to bring down Mr Shamir's hard-line government.

It is widely believed the Americans would prefer the more dovish Labour party, which favours a significant slowdown if not a complete halt to settlement activities, to emerge victorious in the June elections.

Explaining why Israel could not accept the US conditions, Mr Netanyahu said: "What do we have next? Pressure on

relinquishing East Jerusalem? Pressure on absorbing or receiving in Israel millions of Arab refugees?"

Mr Yitzhak Moda'i, the finance minister, has let it be known that his ministry is formulating contingency plans for raising money to absorb Soviet Jews, should the loan guarantee request be rejected. Ministry officials say these plans include a rapid acceleration of the country's privatisation programme and an appeal for aid from world Jewry.

## Brazil suffers setback in Paris Club debt talks

By Christina Lamb in Rio de Janeiro

BRAZIL'S initial proposal for the rescheduling of its \$21bn-\$22bn debt with the Paris Club group of creditor governments has been rejected in the first day of negotiations in Paris.

However, Brazilian economy ministry officials yesterday remained confident agreement would be reached this week.

The Brazilian negotiating team, led by Mr Francisco Gros, the central bank governor, was working on a new proposal yesterday after German and Japanese representatives had refused to accept Brazil's original offer.

The main sticking point is Brazil's insistence on including in the rescheduling, debt that was rescheduled in the last accord in 1988. Mr Gros said on Friday that this accord had created an excessive concentration of repayments over the next two years.

Brazil's original proposal asked for the rescheduling of \$13.5bn over 18 years. This includes \$8.6bn in arrears and \$4.9bn in payments due over the next two years as a result of the 1988 accord. Only in exceptional circumstances does the Paris Club agree to reschedule already rescheduled

debt and Brazil's non-payment of interest for the last three years has not endeared it to official creditors.

They complain that they have been receiving worse treatment than the commercial banks to which Brazil started paying 30 per cent of due interest last year.

According to Brazilian economy ministry officials, the Germans and Japanese are insisting that Brazil respect the 1988 accord. The Brazilian team pointed out that it has not asked for a reduction of the principal and maintains that it does not have the capacity to pay under the previous terms. However, creditors believe that Brazilian reserves are now at their highest levels since the start of the debt crisis.

Despite these differences the negotiations are said to be taking place in a favourable climate and Brazil has received unexpected support from the presence of Mr Enrique Iglesias, head of the Inter-American Development Bank, who has flown to Paris specially to make a personal presentation backing the government's new stabilisation programme.



## El Salvador clinches aid from EC

By Patrick Blum in Lisbon

THE European Community will step up economic and political co-operation with Central America to promote development and human rights, following a meeting of EC and Central American foreign ministers which ended in Lisbon yesterday.

Several programmes of economic and technical assistance were agreed, including Ecu13.8m (£9.78m) to help improve telecommunications in the six Central American countries, and a separate Ecu7m for El Salvador to support small enterprises and projects in areas most affected by the 12-year civil war.

Assistance to support national reconstruction in El

Salvador was also discussed yesterday in a separate meeting called by Portugal, the current EC president, with representatives from the Community, the US, Canada, Japan, other donor countries, and the International Monetary Fund and World Bank.

El Salvador's government says it needs around \$1m to rebuild the economy following the civil war. The EC has already promised up to Ecu50m.

In Washington yesterday, President Alfredo Cristiani of El Salvador said he expected the US to provide around \$250m in reconstruction aid. The Bush administration has asked Congress to approve the

aid and has promised to give its full support to moves to help rebuild El Salvador's economy, Mr Cristiani said.

The announcement came as a surprise to EC officials who reacted with some irritation. "It's another example of the US jumping on an initiative without telling anyone else and claiming leadership," said one diplomat in Lisbon.

Support for human rights and democracy were dominant concerns among EC ministers who also agreed to an Ecu1.5m programme for the promotion of human rights in the region. This will help to provide better training for police and armed forces, and support human rights initiatives.

## Aristide deal sparks protest

A WEEKEND accord aimed at the eventual return of Haiti's ousted President Jean-Bertrand Aristide has angered right-wingers, touching off a demonstration by more than 200 of his foes outside the Legislative Palace (above).

The deal, struck in Washington by Mr Aristide and some leading Haitian lawmakers, appeared in danger of unravelling yesterday, with Mr Aristide saying further talks were necessary on the fate of the army chief who overthrew him.

Mr Aristide and prime minister-designate Rene Theodore were also apparently unable to come to terms on the ground rules for power-sharing.

## Drugs summit rebuff for the US

By Sally Bowen in Lima

US proposals to allow cross-border pursuit of drug traffickers in Latin America have been dropped from the draft declaration for the seven-nation drugs summit convening today in San Antonio, Texas.

Unless revived at the two-day summit, the dropping of the US proposals represents a victory for the three Andean countries which produce the overwhelming majority of the world's coca, the leaf from which cocaine is derived. Peru, Bolivia and Colombia saw the proposals as potential US threats to their sovereignty.

US-drafted "talking points" used as the basis for pre-San Antonio negotiations earlier this month in Quito, had pressed for formation of a "regional conference and action group" with wide pow-

ers of bilateral and multilateral sanction.

Common jurisdiction over sea and airspace would, under the proposal, have allowed aircraft or warships of one member country to enter another's territory in pursuit of drugs traffickers. The Andean Commission of Jurists said that these rights "would in fact be exercised by that member with the means and desire to execute them" - in other words, the US.

All such controversial proposals have been eliminated from the joint statement, which merely calls for "mutual co-operation... with full respect for the sovereignty and territorial integrity of our nations".

In addition to the US and the three Andean coca producers who met at the last drugs sum-

mit in Cartagena two years ago, the presidents of Mexico and Ecuador will attend. The Venezuelan president, Mr Carlos Andrés Pérez, was also due to attend, although it is reported to have changed his plans after this month's coup attempt.

The draft declaration "vigorously" reaffirms the Cartagena declaration of two years ago. It claims advances - some of which are disputed elsewhere - in reducing production of and demand for coca and areas under cultivation, in creating alternative development programmes and in dismantling transnational drugs trafficking organisations and financial networks.

The declaration, however, admits that the Cartagena objectives on coca crop substitution "have not been alto-

gether fulfilled". It expresses hopes that an "important new initiative" for training, technical assistance in marketing and animal and plant health will improve matters.

The Andean countries call for, and the US takes note of, the need for an "Alternative Development Facility" under the umbrella of an international financial institution. This would provide short-term financing until alternative development plans mature.

The heads of state call upon the countries of Europe and Asia, expanding markets for cocaine, to co-operate in the fight against drugs. But success in the fight is principally depicted economically, as dependent upon "strong economic and innovative economic initiatives".

## Caterpillar digs in for bruising fight

THE three-month labour dispute between Caterpillar, the world's largest maker of earth-moving equipment, and the powerful United Auto Workers union is becoming more and more bruising.

After last week's failure to restart negotiations, the company and the union have dug in for a protracted battle which observers believe will produce no real winners. Bets are that the dispute could rival the seven-month strike of 1992-1993, the longest in UAW history.

The union, which in early November sent out on strike only 2,400 workers, last week sent out a further 8,400, bringing the total to two-thirds of its members at Caterpillar. This included the 5,650 workers whom the company had locked out as a retaliatory step in November but had recalled nine days ago.

The union is determined to win a pattern contract agreement from Caterpillar comparable with the one that it agreed last year with Deere & Co, another heavy equipment manufacturer. Pattern agreements, which are designed to establish contract patterns throughout an industry, are the heart and soul of the UAW's strength, particularly in relation to the big US car makers.

The three-year Deere agreement, which is broadly in line

with the UAW's auto company contracts, includes a 3 per cent general wage increase in the first year, 3 per cent lump sum bonuses in the second and third years, and job security and benefits provisions wanted by the union.

Caterpillar, based in Peoria, Illinois, says it must have an agreement that will allow it to continue to be internationally

whatever it takes to keep customers from buying competitors' products, and speculation has grown that, if a settlement is not reached soon, the company may try to employ non-union replacement workers. This has been fuelled by Caterpillar's recent engagement of Vance International, the private security firm known for its tough tactics in

US plants, giving the UAW a Pyrrhic victory.

The union, however, cannot afford to flinch: if a Caterpillar precedent is set that breaks the tradition of pattern agreements, it could face a demand from the car makers to re-open negotiations and thereby risk having its power undermined.

Moreover, this is a delicate time for the UAW leadership, which faces re-election in June at the union's triennial convention. It will not want to serve up to its members a defeat in Peoria and bleak prospects in the nation's car-making capital of Detroit. In an attempt to demonstrate union might and solidarity, the UAW leadership has called on its own members and those of other unions to march in Peoria on March 22. The UAW will be hoping that the march will not prove to be its last big stand.

● The Caterpillar-UAW dispute is spilling over ominously into the economy of Illinois, where the company has its largest operations. The length of the strike will be a significant element in determining when the state can emerge from recession, according to Ms Diane Swank, First Chicago's economist for the Midwest region. She calculates that as many as 7,000 of the 17,000 manufacturing jobs lost in the state last year were related to the strike.

## The auto workers union may force a concession on pay, but at the expense of jobs later, writes Barbara Durr

competitive. Last year, sales outside the US accounted for \$5.8bn, or 59 per cent, of the company's \$9.84bn total. It says a pattern agreement would undercut its long-term viability.

The company, which lost \$404m in 1991, claims that the strike did not have a significant effect on last year's results but says the dispute is "seriously clouding the outlook" for this year. A first-quarter loss is now expected, and, as the spring construction season arrives, the company may face difficulties in meeting orders despite having built up several months of inventory before the strike.

The company vows "to do

several other labour disputes in recent years involving companies' attempts to break their unions.

Caterpillar says that it hired Vance after receiving threats, and that it had to take "steps to protect its people and property".

Security analysts take a dim view of the possibility of the hiring of replacement workers. "If they do that, you'll have a war in Peoria," said Mr Tobias Levkovich, a security analyst with Smith Barney Upland.

Labour experts say Caterpillar management is more likely eventually to concede a pattern agreement and then quietly move as many jobs as possible, either overseas or to non-union



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## UK NEWS

# Generator pulls out of big coal import terminal

By Juliet Sychara

PLANS for Britain's largest coal import terminal have been abandoned after a row between Associated British Ports (ABP) and PowerGen, one of the two electricity generators involved in the £150m project.

The terminal was to have been built on the north east coast of England at Immingham and contracts for its construction were close to being awarded. The terminal, due to open in 1994, posed a serious threat to British Coal as it would have allowed the generators to replace 10m tonnes a year of the 65m tonnes of coal they buy from it with imports.

ABP, which was managing the project, yesterday blamed the cancellation on the refusal of one generator to agree to sign final contracts this week. It did not name the generator, but it is understood to be PowerGen. The other generator involved in the project is National Power.

"We finally decided that enough was enough," said Sir Keith Stuart, the company's chairman. ABP had had parliamentary permission to develop the site since June 1990 and was still waiting to go ahead. "We have lost valuable time," he said.

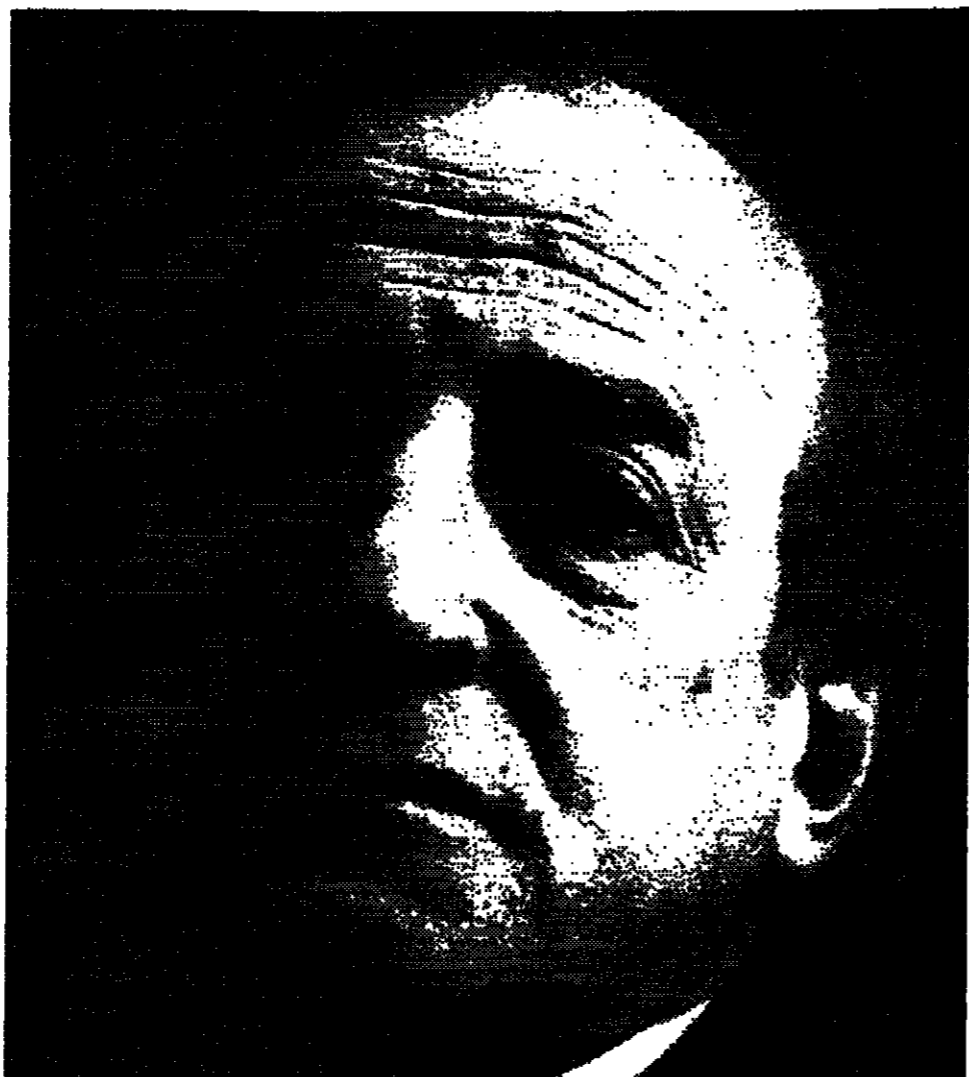
It was claimed yesterday

that PowerGen had asked ABP to delay the final signing of the project until after the general election. "The Labour party had a go at them and said they would let the terminal rot if they got in," a senior coal industry executive said. "PowerGen is not a big partner in the project, and they were prepared to hold off till after the election, but ABP forced the pace."

PowerGen acknowledged it had not welcomed the political attention focused on the project. But the company stressed it had not agreed when the final signature would take place. "Our negotiations on this deal were ongoing and we believe the action ABP has taken is precipitous," it said.

PowerGen denied it lacked commitment to the terminal project, which it had itself initiated, and it said ABP's decision had come as a total surprise. National Power said ABP's decision was "not in accordance with the company's wishes." Both generators said they would look at alternative import terminal projects.

"We've been urging the generators and anyone else prepared to listen to take note of the rapidly increasing competitiveness of British Coal," British Coal commented yesterday.



Lord Justice Taylor, pictured above, was yesterday named as successor to Lord Lane, the controversial Lord Chief Justice - England's senior judge. He set out immediately to restore confidence in the criminal legal system which has been undermined by public anxiety over recent cases of miscarriage of justice. He added that juries were likely to continue making large awards against newspapers until the Press Complaints Commission was given greater powers.

## BRITAIN IN BRIEF



### Bureaux de Change rules overhauled

The Department of Trade and Industry has announced measures to tighten controls on bureaux de change.

Mr Edward Leigh, consumer affairs minister at the DTI, said that in future full information on commission rates must be given the same prominence as the exchange rates themselves.

Advertised exchange rates must now give full details on the terms on which transactions are made - if operators buy and sell currency at different rates, or offer different rates for travellers' cheques, these must be shown.

### Major to meet Irish leader

Mr Albert Reynolds has his first meeting as Irish prime minister with Mr John Major today amid only faintly optimistic signs that Northern Ireland's political leaders are edging towards re-starting "round-table" negotiations.

Both prime ministers are anxious to promote a dialogue between the two governments in order to avoid creating a lull in political activity which would encourage terrorists.

### ITC defeats legal challenge

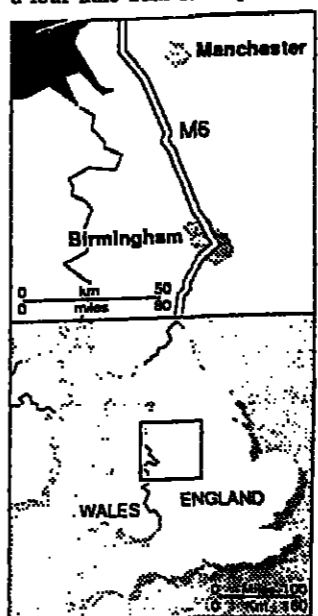
The Independent Television Commission (ITC) has successfully beat off an appeal to the House of Lords, Britain's most senior court, over the distribution of new television broadcasting licences.

Television South West had gone to the Law Lords to try to overturn an Appeal Court decision that the ITC had not been unfair in rejecting its £16.11m

bid. The decision of the Law Lords effectively ends the prospect that the ITC's decisions will be legally challenged by other aggrieved losers.

### Private road abandoned

The government has abandoned plans to build a privately financed toll motorway between Manchester and Birmingham. Instead it proposes to widen the existing M6 motorway from a three lane to a four lane dual carriageway.



The transport department estimated that widening the motorway by an extra lane between Birmingham and Manchester would cost £450m.

### Policy move on environment

Mr John Major, the prime minister, will today try to reconcile differences in the government over the pace of Britain's efforts to cut emissions of greenhouse gases and reduce the risk of global warming.

The matter will be discussed by a cabinet committee set up to monitor progress on the commitments made in the 1990 environment policy document. The intention is to agree a policy to present to next week's meeting in New York of the preparatory meeting to prepare the way for the Earth Summit in Rio de Janeiro in June. It is hoped to agree an international convention on global warming at Rio.

### Ford union threatens action

Union leaders at Ford UK yesterday promised "a major reaction" if the company goes ahead with a plan to slim down two research and development centres in Essex and concentrate R&D work in Germany.

A document, leaked to the Amalgamated Engineering Union, talks of shrinking Dorton, Ford's biggest R&D centre in Europe, and Aveley, as an "option" which "does not represent company policy".

If the plan did go ahead it would mean transferring to Germany about 1200 of the 4,000 jobs at the two centres.

### Share scheme collapses

A proposed joint venture between UK banks to handle some aspects of share registration appeared to have collapsed as two leading clearers rejected the idea.

A bank that promoted the idea, National Westminster, claims it would lead to lower costs for listed companies and make share ownership simpler for private individuals.

But Lloyds and Barclays, which together control about 50 per cent of the registration market, have rejected the idea.

### Dealer misused clients' funds

An authorised securities dealer misused clients' funds to prop up his business while pretending to carry out their instructions and issuing them with false contracts notes, according to evidence heard at Southwark Crown Court in London.

Mr Andrew Kimmins pleaded guilty to two charges of fraudulent trading. The charges say that between November 1986 and December 1988 he was knowingly party to continued business activities at Blade Securities and Blade Investments, both of Brompton Road, London, with intent to defraud creditors. He will be sentenced later.

### Beer goes flat..

Beer production in the UK fell by 3.6 per cent last year to 37.18m barrels - the worst annual decrease since 1981, according to Britain's Brewers' Society.

## Dispute defused at Lloyd's

By Richard Lapper and David Owen

A DISPUTE over the appointment of Sir David Walker, chairman of the Securities and Investment Board, to head an inquiry into alleged malpractices at the Lloyd's insurance market, was defused yesterday at a meeting between Tory MPs and leading members of the market.

Mr Alfred Doll-Steinberg, chairman of an action group of Names - the individuals whose wealth backs underwriting - said he was now convinced of the independence of Sir David, who also attended yesterday's meeting. Earlier in the week some Names had questioned the appointment of

Sir David, who is also a member of the Lloyd's council, the market's governing body.

Mr Doll-Steinberg, representing Names on catastrophe reinsurance syndicates formerly managed by the Gooda Walker agency, said he was impressed with Sir David's forthrightness. "We had some reservations at the beginning, but having heard him and met him, whatever reservations we had have been unconditionally withdrawn."

Together with a delegation of four Conservative MPs, including Sir William Clark, chairman of the Conservative backbench finance committee,

and three other Names' leaders, Mr Doll-Steinberg met Sir David and leaders of the Lloyd's market, including Mr David Coleridge, chairman, yesterday.

Sir William described the meeting as "very successful." He had received "categorical assurances" that Sir David's terms of reference would be very wide, he said.

Names on Gooda Walker, which managed a number of syndicates that have suffered devastating losses in 1989 and 1990, are among those seeking injunctions to prevent Lloyd's drawing down from the Names' funds to meet cash calls.

## Employment department plans to axe 800 posts

By Lisa Wood, Labour Staff

THE government department trying to get more people into employment is to axe about 800 posts, it was announced yesterday.

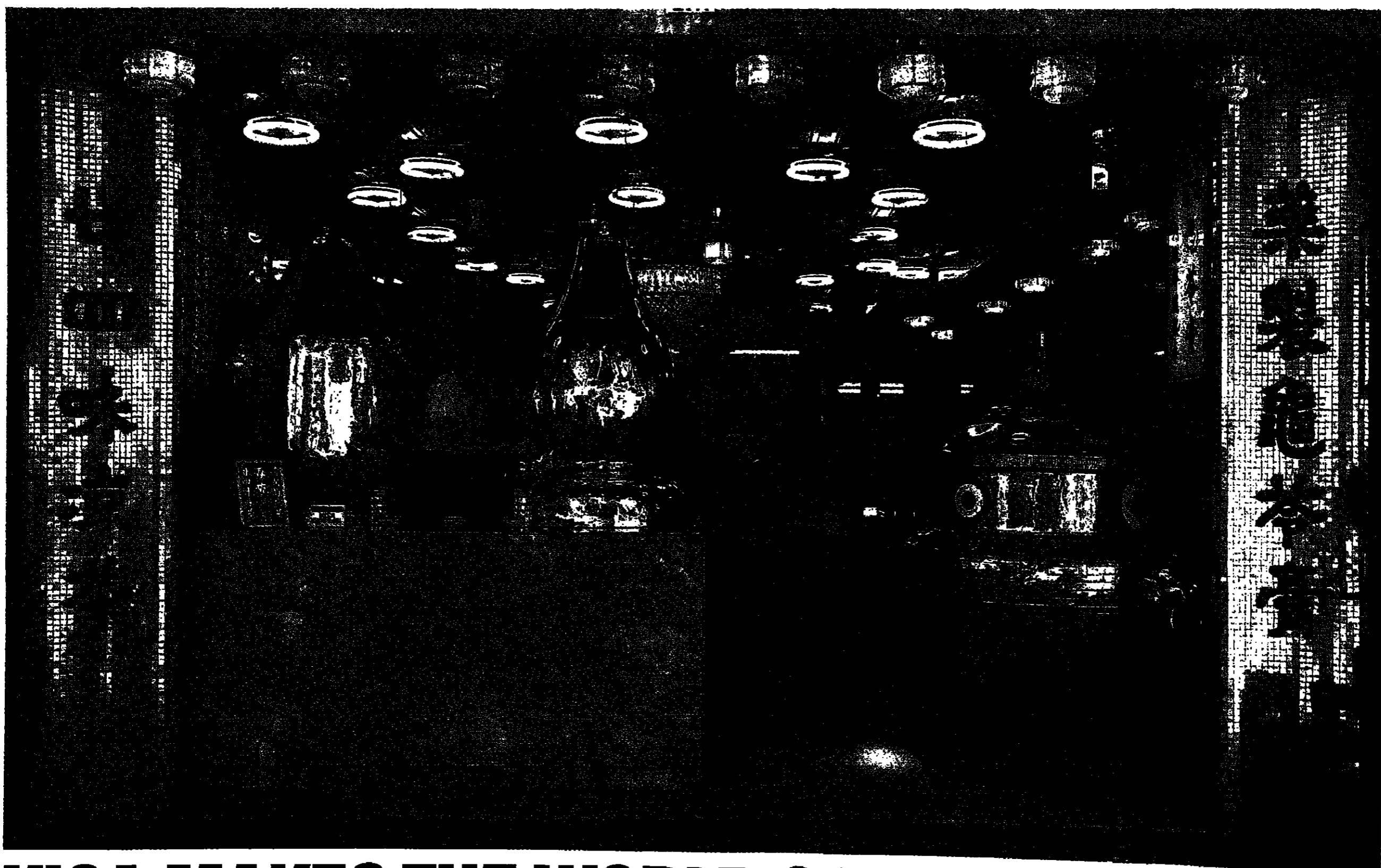
Five hundred of the jobs will be shed in the Department of Employment's nine regional offices, which administer the new Training and Enterprise Councils (Tecs) and about 300 will go at the central directorate in Sheffield.

Mr Michael Howard, the employment secretary said yesterday there was "every likelihood" the cutbacks would be achieved through voluntary

measures.

The CPSA union, which along with the NUCPS represents the majority of government officials, said it was appalled at the job cuts. "They are particularly bad coming at a time of extremely high unemployment," said an official.

The department is one of the government's biggest with 57,000 employees. Mr Tony Blair, Labour's employment spokesman said yesterday he had written to Mr Howard demanding assurances that the cuts would not affect training provision.



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Financial

ord union  
threatens action

Share scheme  
collapses

## Dealer misused clients' funds

Bae, in partnership with the UK General Electric Company (GEC), last year bid unsuccessfully for the contract to be prime contractor for the Royal Navy's EH101 Merlin anti-submarine helicopters. The contract went to a partnership between IBM and Westland. Japanese talks. Page 14

Mr Quinn did, however, warn about the growing costs of maintaining an orderly banking system.

The business community as a whole might share Nesbitt's mixed feelings after a period in which entrepreneurialism was given its head, only to be reined back by all the old, familiar problems of recession. Even so, with 50,000 businesses failing last year - the

**Farmer's tale under the Tories: Richard Willoughby will not be encouraging his sons to work the land in the 1990s**

more, with real incomes here and throughout the farming community now judged to have fallen to their lowest level in the whole post-war period. In one of the most efficient and fertile agricultural areas in

**Tomorrow: the Midlands and south Wales**

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## BUSINESS AND THE ENVIRONMENT

## Tribunal flexes its muscles

Hydro-Québec, the big Canadian hydroelectricity producer, has become one of the first companies in the world to appear before a self-appointed international water pollution "tribunal" to defend itself against its critics, marking a departure in the public relations war of words between environmental groups and business.

The Canadian company, the world's fifth largest hydroelectricity producer, voluntarily stood in the "dock" in Amsterdam last week to defend itself against charges of breaching laws and causing serious environmental harm in pursuit of the large-scale James Bay hydroelectric project in northern Québec.

Hydro-Québec, one of the few corporate "defendants" to appear in 10 separate cases heard by the Second International Water Tribunal, was brought to court by the Cree Indians. After a five-hour hearing, the eight-member jury - composed of environmental lawyers, writers and scientists - recognised that Hydro-Québec and the provincial government had entered into a series of agreements with the Indians but said they doubted whether "such a contract adequately reflects the aspirations of the Cree to self-determination and control over resources".

In one other case, representatives of PetroEcuador, the Ecuadorian oil company, also appeared in Amsterdam. This marks a stark contrast to the first international water tribunal in Rotterdam in 1983, when none of the companies cited in complaints about polluting the Rhine was present.

Jacques Finet, Hydro-Québec's vice-president for Europe, said his appearance before the tribunal was designed to get the company's point of view across to European public opinion. "We are proud of what we do," he said. "We have nothing to hide." His accusers, who included the Cree's chief Matthew Coon-Come, were formidable competitors for media attention. They arrived at a pre-trial canal-side press conference in a traditional Indian canoe.

Ronald van de Krol

National Westminster Bank, the UK's second largest clearing bank, is not the sort of company that belches smoke into the sky or empties chemical waste into rivers.

But it does employ close to 100,000 people, run a fleet of 7,000 vehicles, own 4,000 separate properties, and consume mountains of paper and office equipment. So it cannot ignore the impact this has on the environment.

Nearly a year and a half ago, NatWest decided to try to assess that impact and see what it should do about it. In conjunction with Coopers & Lybrand Deloitte, the accountancy firm, it embarked on an environmental audit of its entire domestic operations. "We literally lifted manhole covers and looked into the drains," says Hilary Thompson, head of the bank's environmental management unit.

Although the purpose was partly altruistic (the bank's new chairman, Lord Alexander, is keen on environmental issues), it was also economic insofar as NatWest wanted to reduce costs. It was even defensive to the extent that NatWest wanted to rebut criticism and prove that it was willing to set an example.

The results of the audit will be published in stages during this year through to October when the programme should be complete. But already work on the support services sector, the largest consumer of supplies and equipment in the bank, and UK retail banking is well advanced, and a picture is beginning to emerge.

The audit is being conducted by two NatWest managers and the Coopers team. In the support services area they looked at supplies, property management, vehicles, information technology, catering and links with suppliers.

Some of these pose obvious questions: how to make buildings more energy efficient, or vehicles more environmentally friendly, which the bank was addressing already. NatWest is taking the sort of steps you would expect, such as raising the quality of its buildings and "greening" its vehicle fleet. It is also looking at waste management to ensure that in cleaning out its rubbish it is not merely shifting the problem somewhere else - a requirement that will have statutory force in the UK from next April.

A specific problem for banks is paper. NatWest has its own printing division, and the audit examined ways of raising the

David Lascelles examines National Westminster Bank's pioneering green audit

## Paper chase



level of recycled paper. But there are limits to what can be done here. One obstacle is an industry-wide agreement among banks on the quality of paper used in cheques which prevents them being recycled. This would have to be amended if a lower quality was to be accepted.

The paper issue also involved examining the policies of paper suppliers to ensure that they met NatWest's standards and would not cause the bank any embarrassment.

On the information technology side, the audit checked the energy efficiency of equipment, and asked questions like, what is it made of, is it disposable? Experts looked at the software to see whether it could be

made to run more efficiently. A technical unit has also been set up to vet new equipment.

Thompson declines to discuss the audit's findings in detail at this stage. But she says that the exercise has been helpful in identifying a wide range of savings. Overall, the savings possible in support services should amount to five or six times the cost of achieving them (as opposed to the cost of the audit itself which Thompson puts in six figures), she believes. Some of the savings will be large, like the £750,000 that NatWest expects to save each year on its new energy-efficient cheque processing centre in Stone in Staffordshire, right down to the 12 per cent saving on making visiting cards out of recycled paper.

However, the cost of actually carrying out the changes required by the audit will be borne by the individual departments concerned on the grounds that they will be the long-run beneficiaries. This will also drive home to individual managers the economic message behind environmental awareness.

Getting people to take the exercise seriously is a major part of Thompson's task. Although the initiative had board approval and is backed by senior management headed by Derek Wanless, a deputy group chief executive, institutional inertia and cynicism could still blunt its impact. Thompson has set up a network of senior sector executives whose job it will be to ensure that all the recommendations are carried out, and that the audit has a continuing impact backed by a detailed timetable.

The intention is to have a follow-up audit in about three years' time. "I don't want people to see the environment as a separate issue," she says. "I want them to put it in their planning."

Aside from whatever internal benefits NatWest derives from the exercise, it also has an external purpose too. NatWest needs to be in a position where it can speak with some authority on environmental matters to other organisations and businesses.

This is increasingly relevant as NatWest now has a policy of examining its business customers' environmental record when making loan decisions. In some cases its managers even require prospective borrowers to conduct an environmental audit of their own (at their own expense) before they approve a loan. This is to protect the bank against exposure to customers whose creditworthiness could be damaged by some environmental disaster.

NatWest claims to be the leader among the UK clearing banks in appointing an environmental supremo and conducting its audit. But other big banking organisations have also begun to make themselves more green.

Barclays, for example, has had an energy efficiency unit operating since 1979, during which time it estimates it has saved the bank £11m. It is also trying to extend the use of recycled paper, cut emissions from its cars and outlay hard-wood furnishings. Lloyds and Midland have also been trying to make themselves more green, though none has so far sought an audit of its own.

## URBAN AIR POLLUTION

## Putting brakes on the bus cartel

Leslie Crawford breathes the smog in Santiago



SANTIAGO'S chronic smog obscures its most stunning landmark. The towering Andes that once formed the backdrop to the Chilean capital now exist only in the memories of the long-suffering residents and the postcards bought by tourists. Although Santiago has no heavy industry to speak of, and its population (4.5m) is only a fraction of São Paulo's or Mexico City's, it nevertheless rivals these heavyweights for the dubious distinction of being Latin America's most polluted city.

The reasons for this lie in the capital's untrammelled growth and its dry climate, but above all in misguided free-market policies which encouraged the development of the most chaotic, inefficient and costly public transport system in Latin America.

Chile's former military government lifted controls on bus transport from 1975 onwards until there were no restrictions on routes or fares. Anyone who owned a bus could drive it wherever they pleased. As a result, there are more than 14,000 buses trundling through Santiago. Most run half empty, spewing out diesel fumes and thick clouds of soot from their engines.

Deregulation did not bring about a fall in fares. The lack of alternative transport allows Santiago's 4,000 bus owners to operate a cartel, which controls a \$250m-a-year business and rigs prices to mask inefficiencies.

But to grasp the full extent of Santiago's smog problems, one must add 430,000 other vehicles to Santiago's bus fleet, the dust from 700km of unpaved roads and wood burning in homes. The amount of particulate matter - dust, soot, and a choice blend of mutagenic agents - never falls below twice the accepted international health standards. In winter, when a mass of cold air traps the smog near ground level, the concentration of breathable particles can increase five-fold, forcing the closure of schools and industry. Drivers face restrictions of varying degrees for nine months of the year.

Hospitals are overwhelmed by the number of patients with respiratory diseases as soon as the autumn sets in. Their waiting rooms overflow with children attached to vaporisers - a kind of oxygen mask that unblocks obstructed lungs. Pneumonia has become the main cause of infant mortality in Santiago. The military regime, which stepped down in March 1990, suppressed the results of medical

research on the deteriorating health of its inhabitants. President Patricio Aylwin's government has made a brave stab at the problem since taking office less than two years ago. However, its greatest success so far has been political. After an acrimonious year-long conflict with the bus owners' cartel, the Ministry of Transport succeeded in forcing the retirement of the oldest 2,600 buses in circulation with compensation for their owners.

It also put the city's bus routes to tender in an effort to rationalise services and ease traffic flow. This was at first boycotted by the cartel, but its members caved in. The new services, scheduled to begin next month, were awarded on a point system that gave top marks to operators offering newer buses and lower fares.

"Putting the bus routes out to tender has effectively broken the cartel because operators have had to compete on the basis of price and quality," says Juan Escudero, a transport systems analyst at Santiago's Decontamination Commission.

Santiago's police now have the power to carry out spot checks on vehicles belching out exhaust fumes - and order them off the streets. The government has forbidden the import of used motors and spare parts, and from September onwards all imported vehicles will have to come with catalytic converters.

Some of the capital's 1,000 industries are already cleaning up their act, but the investment so far in reducing toxic emissions remains a paltry \$18m. The impact of planned tougher legislation remains uncertain while the government lacks inspectors to enforce it.

Escudero would prefer the onus to rest on self-regulation, and he is toying with the idea of a "pollution bourse" where licences permitting specified amounts of contamination could be traded. This would force industries to factor their emissions as an economic cost.

If the idea sounds strange, consider some of the other proposals seriously put forward:

- Blowing up mountains to the north and south of the capital to create an air vent.
- Rain-making machines.
- Fans to lift the smog.

The proposals reflect, perhaps, how desperate Santiago's inhabitants are to improve their environment. When the first electric trolleybuses reappeared last month after 14 years, a trio of old ladies, alighting for the first time, knelt before the conductor and blessed the bus.

Next week's article will focus on Tokyo.

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## MANAGEMENT

## TAX CHECKLIST

# Adding up the cost of a give-away Budget

Tony Allen warns finance directors that Norman Lamont may have plans up his sleeve that would damage their cash flow

Finance directors may have more to fear than look forward to in Norman Lamont's second Budget, now less than a fortnight away. Despite the expectations of tax cuts for all, March 10 may not be a red-letter day for everyone. Here is a checklist of the main items for finance directors to keep an eye on as they set — or re-set — their own budgets.

## Income tax changes

Income tax is bound to be reduced — either by higher thresholds or lower rates — and while this is good news for taxpayers, it is not so good for their employers.

A cut in income tax means a reduction in the amount the employer withholds from wages. At present, companies can hold on to the tax for up to three months before paying it to the Inland Revenue, although the average period is one-and-a-half months.

Any reduction in the amount withheld will reduce the cash flow of companies; for each £1m a year of wages, the cost might be £500 in additional interest costs.

The same principle holds true for any cut in National Insurance contributions.

The basic rate of income tax can

be important for companies in other ways. Those which borrow from non-banks are potentially liable to deduct income tax from interest payments. If the rate of tax falls, so will the amount of income tax that the borrower has to withhold — another hit on the cash flow.

One positive effect could be for growing businesses, as a lower rate of income tax will set an equally lower rate of small companies' corporation tax.

This would not benefit them until 1993 at the earliest, given the minimum nine-month delay in paying corporation tax. The small companies' rate now applies to the majority of companies in the UK.

## Advance Corporation Tax

Companies are required to pay ACT at the rate of income tax on all dividends. The ACT can be offset against the company's corporation tax, but with significant limitations. It has been estimated that these cost the UK corporate sector £400m a year. Representations on the way that ACT operates have been made for many years, but with little result.

Any reduction in the rate of income tax will reduce the amount of ACT payable on future dividends,

which must be good news. However, it will also reduce the amount of the offset in future years unless the rate of corporation tax is also reduced, of which so far there has been little indication.

In other words, companies that are already suffering from having surplus ACT will be less able to relieve the surplus in the future.

Since the accounting rules require surplus ACT to be treated as an additional tax charge, a reduction in the basic income tax rate will have the effect of increasing in many companies' tax charge in their accounts.

## Investment allowances

There has been much speculation on whether the Lawson Budget packages of the early 1980s — which cut the level of tax relief on capital investment — might be reversed.

The old, first-year allowances, which gave full tax relief in the year of spend, were said at best to be irrelevant to investment decisions, and at worst to distort them. Now the Confederation of British Industry and others are asking that higher levels of allowances are reintroduced.

This could be done in a number of ways. First-year allowances could

be introduced on a higher level of annual relief (currently 25 per cent, on a reducing balance basis) on capital equipment.

Alternatively, Lamont could set different rates for different types of investment, as is the case already in the US, Germany and Japan. It is unlikely that he will consider the lower level of allowances on buildings in the present climate.

A straight-line basis gives equal relief over, say, four years with a 25 per cent rate. The reducing balance basis only gives 70 per cent relief over the same period.

Introducing the straight-line basis would be a very easy change to make and would eliminate the UK's archaic system of calculating allowances and give higher relief at a stroke. The changes would only help those who are tax payers, or have been in the last three years.

Moreover, there is also no new evidence that the decline in investment over the last couple of years is anything to do with the rate of allowances.

The finance director will not get any early benefit from changes in allowances, since they will take effect only over a number of years and accounting rules on deferred taxation may require compensating deferred tax charges. While cash flow may be a little better next year, the company's reported profits may

show no benefit.

Finally, additional allowances can take a long time to produce any benefit. If additional reliefs are introduced from April 1 this year for a company that has an accounts date of March 31, the resulting reduction in tax will not help its cash flow until 1994. Even the most pessimistic commentators seem to accept that there should be some improvement in the economy by then.

## Monthly accounting for VAT

In an attempt to forestall the national cash flow implications of the changes to VAT accounting in Europe in 1993, Customs & Excise announced last November that the largest UK payers of VAT would be required to pay over their VAT more quickly, on a monthly basis (from the current quarterly basis) from this October.

This will advance by an average of 45 days the VAT payments that these companies currently make. Some of those most affected are appealing to the courts that Customs is exceeding its statutory authority.

One large group has estimated that the additional internal administration costs of

meeting the proposal may be £1m. To forestall these problems, Lamont may feel that he should give the proposals more authority, and include them in his Budget.



The author is a partner at Coopers & Lybrand Deloitte

## Aztec acts swiftly as sky falls in

By Michael Cassell

Judith Rutherford had barely got her coat off before the bad news broke. "It was a complete shock, the worst possible start. But it handed us a massive challenge."

In December 1990, only one week into the job as chief executive of Aztec, London's first operational training and enterprise council, Rutherford was still preparing a strategy to assist economic growth in the London boroughs of Kingston, Merton and Wandsworth.

Out of a clear blue sky, British Aerospace fired a devastating broadside into the heart of the local community. The company announced that it was leaving Kingston, an aircraft town since 1912 when pioneer aviator Tommy Sopwith built his prototype "Camel" there. Generations of Hurricanes, Hunters, Hawks and Harriers were to follow, until the age of defence cuts arrived.

The company, which at the time of the announcement directly employed more than 3,000 people locally in its military aircraft operations and accounted for one third of local manufacturing jobs, will be gone by the end of this year. The last Harrier airframe left the factory this month.

With it went around 500 job opportunities a year, numerous skill training opportunities, more than £12m of spending power from local people's pockets and all hopes that the area could avoid the worst effects of the recession.

"It looked for a while as though most people, apart from the unions, were just going to sit back quietly and let it happen," reflects Rutherford.

What was a catastrophe for a relatively old, immensely experienced workforce at least provided Aztec with the chance to use its initiative and to employ its untested skills in mobilising a community into action.

Rutherford says she has always seen a broad role for Tecs as brokers, acting as a catalyst to bring a range of local agencies together to help the business community fulfil its potential.

Aztec's board of directors, drawn from the business world, did not think it fit to question the commercial decisions of BAe, which is spending £2m to help ease the pain of closure and advise on jobs, retraining and business start-ups.

But the board was anxious to assess the impact and to consider a strategy for minimizing the damage.

In the first public-private partnership of its type, Aztec joined forces with BAe, the three boroughs and other local bodies and set up a task force to address the issues.

The first results have just emerged in the shape of a report which identifies the short-term consequences of BAe's departure from Kingston and which tries to establish its



Judith Rutherford: challenge

effect on longer-term economic trends in the area.

The report, which should offer lessons for other companies and communities faced with similar upheavals, makes a detailed impact analysis of the closure and considers future uses for the Richmond Road site.

But Aztec also hopes the document's value will be in providing a strategic framework for a programme of economic development in its area on which public and private sectors can co-operate.

The authors believe that the creation of a more systematic approach to monitoring employment changes and economic activity will help the process of forward planning.

In turn, that should encourage a better targeted approach to business support, training and other local economic development initiatives.

For Aztec itself, the real challenge is to ensure that it maintains some momentum.

It intends to keep the task force going, possibly broadening it with the inclusion of the trade unions and the local chamber of commerce.

Together with the three councils, Aztec is now considering appointing an officer to travel for EC funds to help them get on with their job.

Immediate plans involve a further study to identify the prospects for inward investment and measures to help retrain older workers and relocate unemployed executives. There will also be courses for women having to return to work to supplement household incomes.

With the local citizens' advice bureau swamped with requests for help, Aztec expects to have its own helpline operating in April.

But all the good intentions and strategic objectives in the world run up, inevitably, against the expenditure restraints of which Tecs now increasingly complain.

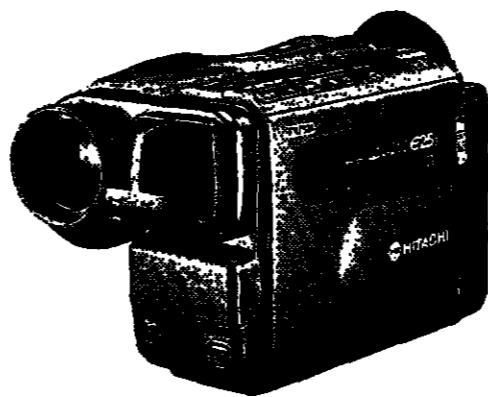
Rutherford admits there is a great deal of frustration over the inability of Tecs to fulfil the valuable role for which they were established, adding: "We are looking at a cake which will simply not begin to feed everyone".



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# FINANCIAL TIMES

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Wednesday February 26 1992

## Anglo-Irish shutters

MR ALBERT REYNOLDS, the new Irish prime minister, said in his first international interview that he would like to be remembered as "the man who opened up the shutters and let in the light". He has had a tempestuous start. News of the Irish courts' refusal to allow an abortion for a 14-year-old girl who had been raped reached the world faster than that of his own inauguration or the latest atrocities in the north.

The case cannot be blamed on the new administration in Dublin. It is a reminder, however, that Ireland wants to live in the modern world – and, in particular, the European Community – the international spotlight will sometimes burn the skin.

In a development little noticed outside the Republic, the Irish government negotiated a protocol to the Maastricht Treaty allowing it to maintain its own anti-abortion laws, without being over-ruled by the European Court. Since, in Ireland, Maastricht has been ratified by referendum, all sorts of troubles could be in store, including a referendum on Europe that becomes a referendum on abortion.

That kind of problem over "subsidiarity" in EC decision-making is familiar enough to the UK government, to which Mr Reynolds pays his first official visit as prime minister today. Dealing with Europe is not the only problem they have in common: there is also the question of Northern Ireland.

Given the development of a general election, little new can be expected from the British.

**Constitutional change**

Mr Reynolds has already stated his readiness to put articles two and three of the Irish constitution to a referendum to let the Irish people decide the right to legislate for the whole island of Ireland, on the negotiating table. That is not a huge advance on previous Irish statements, but he has at least suggested it at the beginning of his period of office and should be encouraged to build on it.

It is also time for British politicians to acknowledge that Northern Ireland is too important to be hived off to a secretary of state. At a time of acute pressure for constitutional change in Scotland, the debate about modes of devolution is under way in earnest. Ulster has been allowed to get away too long with claiming that its problems are uniquely intractable.

**Eco-imperialism**

HOW WOULD the readers of this newspaper like to have an elephant in their garden? What would they feel if they had to live off what the garden produces? To pose the questions is to answer them. Why then should western "elephantiers" expect Africans to tolerate destructive animals that compete for valuable resources?

The answer is to take elephants economically valuable. Some argue that the best way is to permit trade in ivory, the issue that will dominate the 13-day triennial conference of the Convention on International Trade in Endangered Species (Cites), which will start next Monday in Kyoto.

A total ban has been in place since 1989, following a decade in which Africa's elephant population slumped from 1.2m to 600,000. The ban seems to have been successful, but is under pressure from demand and so reducing poaching. Zimbabwe, along with South Africa, Botswana, Namibia and Malawi, even claims that culling is needed. These countries want a resumption in ivory trade, and other elephant products, to generate funds for protection and preservation.

Arranged against Zimbabwe are the world's conservationists, who fear an end to the ban will halt the recovery in elephant numbers. Under their pressure, many governments have decided to support the

Anglo-Irish Agreement of 1985, which made the frequency and relative amiability of Anglo-Irish meetings possible.

The 1985 agreement is a flexible document. It can be amended and adapted as the parties to it wish. Without it, it is doubtful whether relations between two fellow members of the European Community would be as harmonious as they are. But it has not proved so far a basis for solving the Ulster question. Partly that is because some Unionists still challenge it; partly it is because it has not stemmed the violence, recently at its worst for many years. Successive political initiatives, like Mr Peter Brooke's, have been tried and pestered out.

**Favourable straws**

There are one or two mildly favourable straws in the wind. Part of the Workers' party in the Republic is renouncing revolutionary links. Mr Gerry Adams, the president of Sinn Féin, talked at the weekend of a political rather than a military strategy. In the north there is a new movement, Initiative 92, seeking solutions across the sectarian divide. None of these moves represents a decisive, or even a genuinely new stride forward. But they indicate, yet again, that determination in London and Dublin will not necessarily go unrewarded.

On the eve of a close-run election campaign, the most likely development in London would be for the main political parties to state that they will not buy votes from Ulster MPs in the event of a hung parliament. A fully bipartisan approach from Labour and the Conservatives remains, sadly, a distant prospect, but they could at least protect Ulster from the potential horrors of Westminster power brokering by the unionists.

It is also time for British politicians to acknowledge that Northern Ireland is too important to be hived off to a secretary of state. At a time of acute pressure for constitutional change in Scotland, the debate about modes of devolution is under way in earnest. Ulster has been allowed to get away too long with claiming that its problems are uniquely intractable.

## Perilous niches

THE HUMBLING of Rolls-Royce, the luxury motor-car maker, should be a salutary warning to British manufacturers who wish to nestle in cosy, upmarket niches. After selling through thick and thin to very rich consumers, largely sheltered from recessions, the Rolls-Royce has become a cyclical product. The lesson for Rolls-Royce, part of the Vickers engineering group, is that even if a product is steeped in history, its manufacturing needs to be grounded in today.

With Mercedes-Benz pouring huge resources into the development of increasingly sophisticated cars, in the face of a mounting challenge from Japanese producers, the luxury car market is becoming increasingly competitive. Rolls-Royce is implementing changes to working practices, but too late. Vickers is also looking for an

international partner to help launch a new model range.

This is the path trodden by other UK luxury carmakers, such as Aston Martin and Jaguar, now owned by Ford, and Lotus, owned by General Motors. Rolls-Royce may survive without a partner, but as a maker of instant antiques, rather like the Morgan sports car company. It will become part of the heritage industry, if manufacturers occupy small upmarket niches, the technological ground is likely to slip from beneath their feet. Hotels and restaurants, shops and theme parks may trade on heritage and a reputation for old-fashioned service. But manufacturers need more than the smell of leather and a glint of buried walnut to retain a reputation for luxury. They need to master modern manufacturing technologies as well.

The International Monetary Fund has rarely been in greater demand. It is on the verge of completing membership negotiations with Russia and other former Soviet republics. Already heavily committed in eastern Europe, it has emerged as the west's principal instrument for assisting the transition to capitalism in formerly centrally planned economies.

Most policymakers seem to take the IMF's central role in guiding economic reform in the former communist countries – as well as in scores of developing countries – largely for granted. Yet it marks a startling transition for an institution that was established for a quite different purpose. The IMF was created at the Bretton Woods conference in 1944 to run an international monetary system based on fixed exchange rates and limited capital mobility.

The Bretton Woods system disintegrated in the early 1970s creating an identity crisis for the IMF. At the time, many experts feared that its influence as a global financial institution would gradually wane. Instead, the IMF cast about for new roles. It helped recycle oil surpluses in the 1970s and involved itself increasingly with economic reform in developing countries. In the early 1980s, it was back on centre stage, managing the Third World debt crisis.

During the 1980s, the IMF was often criticised for excessively austere policies, especially in heavily indebted Latin American countries. Much of the criticism has melted away. Indeed, most observers today appear to have an exaggerated faith in its ability to work economic miracles.

The changing perception of the IMF reflects a shift in world opinion: the policies of economic liberalism and fiscal responsibility that it has always championed are now uncontroversial. Indeed, some recent clients have wanted to "out-IMF the IMF". In Czechoslovakia, Mr Václav Klaus, the finance minister, is a more committed disciple of market forces than many IMF officials. In Latin America, even as recalcitrant a pupil as Argentina is now proposing a programme of economic reforms that makes the Bush administration look dirigiste.

But observers agree that the IMF has also shifted ground to meet criticisms. It talks more about growth and less about balance of payments "stabilisation". It seems more aware of the impact of its policies on poverty, income distribution and the environment.

Mr Moen Qureshi, until recently head of operations at the World Bank, says Mr Michel Camdessus, the IMF's managing director since 1987, deserves much of the credit for the changes. Mr Camdessus has "anticipated challenges and shown a greater capacity for leadership" than any of his recent predecessors, he says. Under Mr Camdessus's leadership, the IMF has:

- Lengthened the duration of economic adjustment programmes and begun to put more weight on structural reforms;
- Recognised the need for special concessional treatment – in effect aid – for the poorest countries, especially in Africa;
- Taken a more lenient view of countries in arrears, in some cases allowing the effective rescheduling of fund loans;
- Spoken up on sensitive political issues such as excessive military spending in developing countries.

Mr Qureshi stresses that Mr Camdessus receives little support from western finance ministers when fighting for such changes and often had to overcome opposition from a conservative old guard within the IMF. He is a "one-man band to such an extent that the rest of the staff are often not on the same wavelength".

Mr Camdessus's reforms, which built on changes already under way in the early 1980s, have helped create a more positive image for the IMF.

## Filling the Italian job

■ The selection of a new head of Confindustria, the Italian industrialists' confederation, has become further confused following the resignation of the incumbent, the 69-year-old Romiti.

The 69-year-old Romiti emerged as the unquestionable choice among Confindustria members to succeed Sergio Pininfarina, who held this key job as chief spokesman for the private sector of Italian industry since 1988. But his candidature became a question of conflicting loyalties.

Confindustria needs a prominent industrialist who can deal from a position of authority both with the government and with the unions. However, Romiti has also proved himself invaluable to Fiat's ruling Agnelli family.

A tough, even authoritarian, manager, he helped steer the group through a bitter period of industrial strife in the 1970s. Although he has gathered around him a team of executives in their late 40s, his departure would have posed a big problem for the Fiat management at a time when the group, especially the automotive sector, is being squeezed by recession and increased international competition.

Indeed, the refusal of Gianni Agnelli, the Fiat boss and one of the "wise men" selected by the next head of Confindustria, to release him underlines how much the group has come to depend upon him. This is all the more so when Gianni Agnelli, 70, is preparing for the succession of his younger brother, the 57-year-old Umberto.

## Magnum force

■ Unilever's results may have failed to set the City alight yesterday. But nothing was going to deter outgoing chairman Sir Michael Angus from celebrating his last annual press

As former communist countries look to the IMF to aid their transition to the market, Michael Prowse examines the role of the fund

## Capitalist tool in need of sharpening



But do its economic remedies actually work? Mr Jacques Polak, a former senior IMF official who retains close links with the institution, recently reviewed academic assessments of IMF performance. He found the evidence was "not as conclusive as one would like".

IMF programmes have tended to improve the balance of payments – which is hardly surprising given that this is their central aim. But the impact on inflation and living standards is, at best, uncertain. His review provides little evidence of a strong positive correlation between IMF programmes and growth.

Glancing at the IMF's latest annual report points to a similar conclusion. At the back you will see long lists of developing countries that have had numerous IMF programmes (the champion is Haiti with 21), yet which still remain deeply troubled economically. For every Mexico, you can find a dozen poor performers.

The early results in eastern Europe are equally disappointing. "The underlying reality," says a World Bank official, "is extremely gloomy." Output is down sharply everywhere and there are few signs yet that private enterprises can fill the gap left by collapsed state enterprises. Poland is already backing away from the austere policies initially agreed with the IMF. Czechoslovakia is growing restive. Mr Richard Erb, the IMF's deputy managing director, concedes that declines in output have been "a lot bigger than we expected" but argues that nobody has put forward convincing alternative policies.

The disappointing results do not imply that IMF policies are necessarily misguided. Mr Polak suggests that it reflects the failure of countries to pursue the policies consistently. But the fact that the IMF finds itself in a long-term relationship of dubious value with many clients indicates something is wrong. After decades of effort, suggests one former IMF official, "a certain cynicism has set in". He says many officials are not "success-oriented": they negotiate tough programmes that fail to heed political realities and then "wait for them to break down".

Part of the problem lies in the mismatch between the IMF's responsibilities

and its original charter. It was meant to provide short-term bridging finance for countries experiencing temporary balance of payments problems. This led naturally to a focus on policies – such as devaluation and fiscal and monetary retrenchment – that would quickly bring demand into line with an economy's short-run capacity to produce. The more difficult development challenge of creating the conditions for sustainable growth formed no part of its remit.

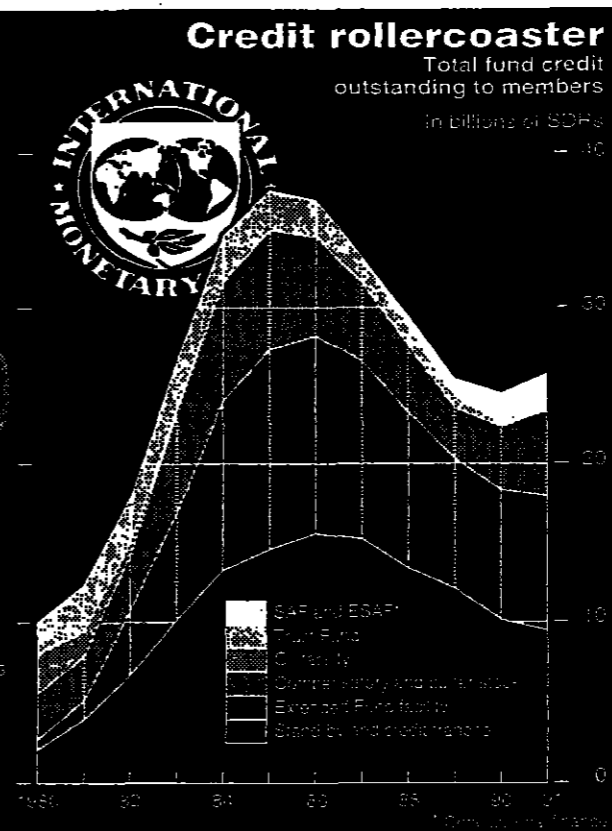
The IMF seems likely to get bogged down in eastern Europe and the former Soviet republics for many years.

the evidence from Latin America and Africa is that it is rarely possible quickly to stabilise an underdeveloped economy and then withdraw. Mr Camdessus seems to relish the prospect of turning the IMF into a long-term development agency. But some question whether this is the right goal for an institution whose primary expertise lies in short-run macroeconomic management.

The irony is that, while the IMF's case load has soared, putting enormous pressure on its hard-working staff, the rationale for some of its functions – and those of the World Bank – may be diminishing. A few blocks east of the IMF's grand building on 19th Street in Washington, a small group called Sachs and Associates has opened its doors. The non-profit consultancy, which is headed by Professor Jeffrey Sachs of Harvard University, provides economic advice to Russia and eastern European governments.

In April, another innovative group, the Emerging Markets Corporation (EMC), will open in Washington. The founders include Mr Qureshi and Mr Donald Roth, formerly the World Bank's senior financial officer. EMC regards itself as an entrepreneurial version of the International Finance Corporation, the World Bank's arm for promoting private sector development. EMC hopes to add value by locating profitable opportunities for direct and portfolio investment in developing countries and the formerly centrally planned economies.

Public sector agencies will always have a crucial role in crises such as



## OBSERVER

conference in inimitable knockabout style.

First, there was the teasing build-up to a showing of a "banter" video, in which he told the commercial for "I Can't Believe It's Not Butter". The vegetable-fat spread's promotion – depicting a truly sickly yuppie couple getting back together over a cake – was banned from television because it fell foul of EC advertising regulations. On reflection, Angus admitted, viewers had some reason to be glad that the Independent Television Commission had kept it off their screens.

Then followed a story about his "stimulating" staircase encounter with a Swedish model who features in another Unilever campaign. Finally, Angus regaled everyone with a collection of his favourite limericks before replying to the hospitality suite to do battle with a large and sticky "Magnum" ice cream. It will be interesting to see if he keeps up this sort of behaviour when he takes over as president of the CBI.

His recent targets have included investigative journalists Seymour Hersh and Michael Evans, chairman of Faber & Faber, over the Robert Maxwell and the Vanunu affairs, respectively.

In the middle of the ITV franchise process, Flynn suggested that senior members of the TSW staff were in cahoots with the opposition and came up with corroborative evidence in the form of home telephone numbers.

In all, Joe Flynn cost TSW £4,000 – a drop in the ocean compared with the lawyers' bills.

**Lloyd's crusader**

■ No one would have guessed a year ago that Michael Freeman, the solicitor leading the legal battle against the Lloyd's establishment, would have been catapulted into the headlines. His eponymous firm is better known for its commercial law expertise than for its



newspapers, governments and intelligence agencies for years.

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**Lloyd's crusader**

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insurance know-how.

However, just over a year ago he was approached by members of the Oakley Vaughan syndicate who had become frustrated at the way their case against the Corporation of Lloyd's was being handled. Not the sort of names to let their affairs go by default, they decided to abandon the respected City firm of Elborne Mitchell and head up west to find a tough, commercial lawyer. One of their number, Sir William Pigott-Brown, had recommended Freeman.

The appointment achieved the desired effect. Pleadings were amended, evidence redrafted and general consternation created. Perhaps it was natural that, lacking no connection with the City, Freeman should develop a pronounced sympathy for his clients' plight.

His speedy mastery of the inner workings of Lloyd's, coupled with his successful background in commercial litigation, made it almost inevitable that he would be leading the crusade when it set off. He has a powerful mastery of oratory – probably too abrasive a style for a QC, but just the tonic for spurring depressed and impoverished members of Lloyd's.

**Nice try**

■ The Royal Institution of Chartered Surveyors is maintaining a stiff upper lip. No, Rob Andrew of Debenham Tewson & Chinnocks was not picked as young chartered surveyor of the year because he is a brilliant rugby fly-half.

He was nominated on the grounds that he was "destined, on business qualities alone, to become a leading member of the profession". And as for his recent move to Toulouse, where young Rob seems to be playing a lot of rugby, the RICS says it has added a "continental dimension" to his business involvement which has "brought great credit to the institution". Hear, hear.

## This week on Financial Times Television

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## LETTERS

## Some fresh and practical tools for managers

From Ms Margaret Exley.  
Sir, In his rush to dismiss Christopher Lorenz's article on Peter Seng (Management, February 17), Tony Gill misses the point (Letters, February 21).

What matters is not whether "organisational learning" is the latest fashion, but whether as an idea it makes a difference. Peter Seng is not only a purveyor of systems thinking (an old idea). He also offers some fresh and practical tools for managers.

Not least is the exploration of their own taken-for-granted mental models, a revolutionary process if done well. Another is the linkage between systems thinking and organisational learning.

Operations researchers would have had us believe that systems are self-correcting, but organisations are only self-correcting if managers intervene and make sure the learning takes place.

Organisational learning is about accessibility of knowledge. Any readers of Seng's rather heavy book will have found Christopher Lorenz's plain English guide a welcome contribution.

Margaret Exley,  
Managing Director,  
Kinship Ltd,  
34 Old Queen Street,  
London SW1H 9EP

## Too late to avoid problems

From Sir Douglas Hague.

Sir, I hope you will allow me, as a believer in the accuracy of historical records, to clarify my discussion with Sir Terence Burns, reported by Peter Marsh (Monday Profile, February 24).

The conversation occurred in June 1987 when my argument was this: first, I believed that the rate of growth of economic activity in the UK was unsustainably high; second, that this would lead to serious inflation which could be corrected only by monetary policy.

## Circle must be squared on monetarist question

From Sir Alan Walters.

Sir, Mr Samuel Brittan derides and condemns all forms of monetarism expounded by Patrick Minford, Tim Congdon, myself, and presumably all other British monetarists ("UK monetarist golden age - alas a myth", February 24). Fair enough. But what I do not understand is how Mr Brittan can square this contempt for British monetarism with his great enthusiasm for German monetarism. The Bundesbank announces monetary targets and, as has been simply demonstrated over the last six months, it adjusts interest rates and open market operations to bring the money supply into its target band. Is this not a monetarist policy as practised by the Bundesbank over the last three and a half decades?

Indeed so great is Mr Brit-

tan's admiration for German monetary policy that, since 1985, he has urged that, by joining the ERM, Britain should be subject to German monetarism. One can appreciate the argument that one can trust the Bundesbank and perhaps the European Central Bank more than the politicians who controlled British policy. But embracing German monetary policy does not necessarily imply that one accepts the fundamental relationships between money, incomes and prices, in short monetarism, that underlies and guides Bundesbank policy.

We would all benefit if Mr Brittan could explain how this circle is squared.  
Alan Walters,  
vice-chairman,  
ATG Trading Corporation,  
1200 18th Street,  
Washington DC 20036, US

## Information technology delivers only with proper direction

From Mr Peter Rowberry-Evans.

Sir, It is the common misconception - that information technology should always be a corporate function in its own right - that is responsible for most of the marital difficulties of business and IT. Catalogue grows of IT woes, February

20). Despite its importance, and increasing relevance to many companies' activities, IT should generally be subordinate to a business systems function. Such a department - possessing a sound knowledge of the business, information systems and the capabilities of IT - is best placed to formulate IT policies and strategies and to direct IT. In this way a purpose-built bridge can link the business's needs and the use of IT, instead of the flimsy constructions which IT managers are often forced to build.

The UK and many other countries have a wealth of good IT specialists. Without proper direction - and a forum in which their valuable advice and ideas can be understood and evaluated - in-house computer systems staff will seldom be able consistently to deliver the goods.  
Peter Rowberry-Evans,  
30 Lymington Road,  
London NW6 1BT

## Not swag, but highly motivating

From Ms Kate Mortimer.

Sir, So far I have seen no one challenge the thought that the defendants in the Blue Arrow and Guinness trials were not "in it" for personal gain, and therefore should be treated somewhat differently from fraudsters who directly steal the clients' money. I am sure I cannot be alone in taking exception to this. What are bonuses, profit-related pay, commissions, promotions and capital gains (not to mention a Lord of the Universe reputation) if not "personal gain"? Not so crude as bags of swag, no doubt, but highly motivating all the same.

We would all benefit if Mr Kate Mortimer,  
Lower Corscombe,  
Okehampton,  
Devon EX20 1SD

## Did not wait to resign

From Mr Greg Dyke.

Sir, You ask (Observer, February 21) why did I wait a month after the telex licence bids were submitted before resigning from the ITN board?

The answer is clear. I didn't. I always disagreed with ITN being involved in a bid for the telex licence and made that clear several months ago at the board of ITN. I also made it clear that, if ITN were involved in a bid, I would not stay on the board.

Once the bid was submitted I quietly resigned. When the board met last week they decided to announce my resignation, despite my request to be allowed to go quietly.

Greg Dyke,  
chief executive,  
LWT (Holdings),  
London Television Centre,  
Upper Ground,  
London SE1 9LT

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LETTERS may be faxed on 01-873 5808.  
They should be clearly typed and not handwritten. Please call for machine fax line location.

## Engineering job cuts are those Britain cannot afford to make

From Mr Tim Webb.

Sir, On Wednesday, February 12 1992, British Aerospace announced 2,350 redundancies - 900 in the regional aircraft company and 1,450 in military aircraft. Redundancies of that amount are always significant, particularly in Britain's largest manufacturer and exporter. What was even more significant, however, was that about 70 per cent were managerial and technical staff, including about 1,000 professional engineers.

The trend in recent redundancy announcements in high-tech manufacturing is for white-collar job losses to outnumber those of manual workers. While the job loss is a tragedy for the employees concerned, the type of jobs now

being cut are those which neither the employer nor the national economy can afford to lose. It was only a short time ago that companies like BAE, Rolls-Royce, GEC and British Nuclear Fuels were scouring the universities and polytechnics of Britain, promising bright, long-term careers for engineering graduates. Now they are sacking them in large numbers.

It is a well-publicised fact that Britain has a shortage of qualified engineers; it should not be thought, however, that those displaced will readily find alternative work. Geographical factors, family, lack of retraining opportunities and the fact that the UK recession, make it extremely unlikely that other jobs will be

available. It is certain that many of the new unemployed will be sceptical of Britain's engineering future and will look for other career paths. Some will drift into casual types of work merely to have an income.

In towns around the manufacturing sites, Britain may be able to boast some of the best educated and qualified minicab drivers who were previously professional engineers.

One of the latest absurdities to emanate from Michael Howard, Secretary of State for Employment, is that employees should be required to repay the cost of training if they move to another employer. What message would this have for the highly skilled employees of BAE who have sacrificed time

and money to achieve professional qualifications, only to be dumped into the ever-larger pool of the unemployed?

The government believes that random market forces will resolve the problems but they cannot and will not. We elect governments to manage the economy. This government stands on the sidelines wringing its hands and reciting incantations about worldwide recession, recovery just around the corner and that it would be worse under Labour. How much worse can it get?

Tim Webb,  
national officer,  
MSP,  
Park House,  
64-66 Wandsworth Common,  
North Side,  
London SW18 2SH

## PERSONAL VIEW

## Arts funding: too precious to be a political drama

By Peter Palumbo

President George Bush's removal of Mr John Frohnmayer, chairman of the National Endowment for the Arts, illustrates what happens when politicians meddle in art. Mr Frohnmayer's tenure of office demonstrated what has long been known at the Arts Council of Great Britain, the Endowment's UK counterpart: namely that artists need freedom to experiment, and that freedom can be costly and controversial.

The Arts Council spends £200m annually on the arts under protection of its royal charter. Its chief executive is accountable to parliament. The system provides a buffer from political interference.

In an election year in the UK, not surprisingly siren voices have already been calling for direct ministerial funding of the arts' "flagships", including the Royal Opera House and the Royal Shakespeare Company. At present these organisations receive grants from the Arts Council, whose experts assess artistic quality - that elusive category - and their value for money.

It may be tempting for a new arts minister to short-circuit this process and send the cheques himself, but the consequences of such a move would be serious. It would ride roughshod over the "arm's length" principle of keeping politicians away from "artistic" decisions (contrived by Lord Keynes, the Arts Council's founder and

first chairman) and it would store up significant political fall-out, since the minister would then have to provide detailed answers in the Commons on questions relating to everything from Hamlet's father's ghost to the cost of costumes in a production of the Ring Cycle. Direct funding of the arts remains an unattractive political option.

This does not mean the arts are politically unimportant. It means a distinction must be drawn between an effective public policy to support the arts and the practical means to carry it out.

A recent independent survey for the Arts Council revealed that 71 per cent of respondents value the arts as a prime contributor to the quality of life; and 69 per cent supports public investment in the arts. In 1990, 17m adults regularly attended more than one type of arts event. In the past five years opera audiences have risen 15 per cent; jazz by 10 per cent. Last year 100m people visited art galleries and museums, far more than attended football matches. Later this year the Arts Council will unveil its national arts and media strategy which aims to take account of the changing patterns of leisure and participation in the arts. The Arts Council will look to a new government to assist it in carrying out the national strategy.

However, there is another reason why British politicians should pay attention to the arts: they make money, in fact more money than the UK motor industry. How?

● Arts expenditure: the total

estimated spending on the arts in 1990-91 was £1.5bn - modest in the context of the UK gross domestic product of £547bn. The £1.5bn provides for libraries, the Arts Council, military bands, museums and galleries and new arts buildings.

● Arts income: according to the Treasury, the arts contributed £50m to the UK balance of payments in 1990. This figure includes the sale of works of art, publishing, television and film royalties and arts expenditures in tourism. By contrast, the value of UK vehicle exports in 1990 totalled £4bn.

On the basis of this evidence, television news ought to carry stories nightly about the arts industry, displacing the familiar litany of Rover. But this is unlikely.

The "big issues" in the election will be health, education, defence and taxation. Scarcely any other issue receives detailed public scrutiny. So what do the main political parties have to offer the arts?

The Conservatives promise "an expanding partnership between the state and the private sector", pointing to the success of the government's business sponsorship incentive scheme which has produced £30m annually of business support. In spite of talk of "incentives for the successful development of the arts", no new fiscal measures have yet been mentioned by the government.

despite indications that a national lottery might be included in the manifesto.

Labour has produced arts policy documents, including the crafts, design, women in the arts and architecture. Its

"big idea" is a new ministry of arts and media. The Arts Council is to remain. The party also proposes new statutory responsibilities for local authorities. However, a "weak" obligation to support the arts placed upon local councils might produce an extra £50m-£100m bill for the environment secretary. Labour has also made noises of approval for a national lottery to support the arts, sports and the environment.

Like Labour, the Liberals promise a single ministry for the arts. They undertake to provide increased public funding for the arts "up to the European Community average", which suggests a quadrupling of the Arts Council's grant. They also promise to abolish entrance charges to museums and galleries.

The Scottish National party's policy for the arts is predicated on the belief that Scotland's national culture is under threat from the dominant culture of England. The SNP promises a national theatre for Scotland, and action to safeguard traditional folk arts. So far, so good. One big difference between the forthcoming election and that of 1987 is that the political parties seem to have taken the arts more seriously. But the general principle, pace Mr Frohnmayer, is that the arts are too precious a resource to be the subject of radical party political differences. What is undoubtedly clear is that the arts will be remembered long after Ecu and Emu are forgotten.

Lord Palumbo is chairman of the Arts Council of Great Britain

## Edward Mortimer

## Iraq's gruesome stalemate

The west must now formulate clearer and more specific objectives in relation to the Gulf



## FOREIGN AFFAIRS

Exactly a year ago, Iraqi forces were in a headlong retreat from Kuwait. Operation Desert Sabre - the coalition ground offensive - was in its most rapid and overwhelming military victories in the history of warfare, ancient or modern.

The US-led, UN-authorized coalition unquestionably won the war. But did it lose the peace? That is a much harder question. Kuwaiti sovereignty was restored, yet Kuwait today is by all accounts a broken, backward, acutely xenophobic society, insecure both in its domestic affairs and in relations with its neighbours.

Apart from the inevitable reprisals against those accused, justly or otherwise, of collaboration, whole communities of people who lived in Kuwait for a generation or more - helping to build and win its ultra-modern infrastructure in return for a very modest share of its enormous oil revenues - have been forced to leave. The citizenship laws remain as restrictive as ever, but the ruling family seems reluctant to concede any real power even to those who qualify as citizens.

Of the new security arrangements in the region, much talked about before, during and after the war, there is no sign. Kuwait and the other Gulf states remain dubious about accepting any long-term military presence of their Arab "allies", nervous about the growing power of Iran, and desperate for continued protection from western countries which, for their part, are much happier to sell arms than to envisage any further involvement of their own forces.

Above all, President Saddam Hussein remains in power, alternating submission and truculence, as the UN struggles to get a hold on his programmes for manufacturing weapons of mass destruction - programmes which turn out to have been far more advanced and extensive than was suspected even a year ago.

The war was fought to liberate Kuwait and to "restore international peace and secu-

city in the area". The liberation of Iraq from Ba'athist tyranny was not an official war aim, although US President George Bush did (on February 15 last year) call on the "Iraqi people to take matters in their own hands to force Saddam Hussein the dictator to step aside". In his mind this was a means, not an end: a less dangerous (for the coalition forces) and less destructive route to victory than the direct liberation of Kuwait by a ground offensive.

But the Iraqi people took it the other way round, seeing the coalition's victory as a route leading to the overthrow of Mr Saddam's regime. They rose in revolt too late to be useful from Mr Bush's point of view, and their expectation of his assistance was cruelly disappointed.

I remain convinced that the insurgents could have won last year's civil war in Iraq if the US and its allies had given them firm support - even

were no match for the firepower of the troops loyal to the regime. Also, very early on, the revolts came to be seen as inherently sectarian and secessionist.

That is true, but it begs the question. Western support would have gone far to correct this impression, especially if endorsed by Egypt, Saudi Arabia and Turkey. All three of those countries were on record as wanting to see Mr Saddam overthrown, and the Turkish president, Mr Turgut Ozal, explicitly called for a democratic regime in Iraq while publicising his contacts with Iraqi Kurdish leaders.

Such a combination would have helped to convince the Iraqi officer corps, drawn predominantly from the Sunni Arab minority, both that Mr Saddam was a loser and that the successor regime would be a moderate one under western and Arab tutelage, rather than a sectarian Shiite one backed exclusively by Iran.

The repression in the south has been, if possible, even more savage than in the north, and in the south there is no 'safe haven'. There, too, there is an acute shortage of food and medical supplies

without the allies committing their own ground forces to a new offensive. They could have been supplied with food and weapons, plenty of which had been captured from Iraq during the liberation of Kuwait. They could have been given air cover, particularly against helicopter attacks (as they were, under the terms of the ceasefire, against fixed-wing aircraft). And the west could have pledged support for their proclaimed objective of a united but democratic and pluralist Iraq, bringing their leaders together and cementing their new-found unity.

That is disputed in the analysis of the Gulf conflict published by the International Institute of Strategic Studies. The rebellions, it points out, were "spontaneous, disorganised and poorly armed, and

Why repeat this long-cold meal now? Because, in one form or another, it still has to be digested. Today in Downing Street the British prime minister receives Mr Massoud Barzani, leader of the Kurdistan Democratic party and, thanks to the western intervention last spring, one of the two de facto rulers of northern Iraq - an area from which Mr Saddam has withdrawn his military forces, but which he is now trying to starve into submission. Mr Barzani will plead for food supplies to be sent in directly, across the Turkish and Iranian frontiers. He will also ask Britain to send official observers to witness elections in Kurdistan.

To refuse such requests would be yet another cynical betrayal of the Kurds, like that which Mr Barzani's father suf-

fered in 1975 when the US acquiesced in the Algiers agreement between Iraq and Iran, cutting off the aid that had encouraged the Kurds to fight. But to grant them would take Britain close to supporting a separate Kurdish state, unless it is done as part of a strategy for liberating Iraq as a whole.

For the fact is that the repression in the south has been, if possible, even more savage than in the north, and in the south there is no "safe haven". There, too, there is an acute shortage of food and medical supplies, with epidemics rampant and infant mortality rising steeply, not because food and medicine are embargoed but because Mr Saddam refuses to sell oil to pay for them on the terms fixed by the UN Security Council.

Western policy towards Iraq has resulted in a gruesome stalemate, of which the Iraqi people are the main victims. Recognising this, Mr Bush and his vice-president, Mr Dan Quayle, have recently pledged that Mr Saddam will not be allowed to remain in power indefinitely, although without explaining how they intend to remove him. Meanwhile, the Iraqi opposition is again gathering itself together, and planning to unite at a congress in Vienna at the end of March. This time, the west must be much clearer and more specific about its objectives. It should encourage the proclamation not of a separate Kurdish state, but of a provisional government for the whole of Iraq, and should supply that government with weapons and air cover so that it can gradually expand the area denied to Mr Saddam's forces, until at last those forces turn against him.

Anyone who wants to help some of Mr Saddam's victims in the south can contact the Iraqi Humanitarian Relief Committee, which is trying to buy second-hand ambulances in the UK and send them out to the Iraqi refugee camps in Iran. Its patron is the British MP, Sir Emma Nicholson, and its address is 50 Wandover Road, London NW10 4RT.

\* *The Gulf Conflict: A Political and Strategic Analysis* (HSS Adelphi Papers 264, Winter 1991-92).

\*\* See David McDowall, *The Kurds: A Nation Denied* (Minority Rights Publications 1992), page 97.

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## Economic gloom but the doom is overdone

The recessionary clouds in France are not without a silver lining, writes Ian Davidson

ALMOST every time President François Mitterrand appears in public, he chides the French people for their pervasive mood of gloom.

"France has the highest average income in Europe," he said earlier this month. "I want to convince you that the French are as capable as others of overcoming the crisis. Our economy is in good health."

Fundamentally the French economy is indeed in good health, and it has received an approving verdict in the latest report from the Organisation for Economic Co-operation and Development. But the current gloom about the economy is justified: revised government figures show that the recession in France is significantly more severe than was previously forecast.

The Statistical Institute had been counting on gross domestic product growth of 0.6 per cent in the fourth quarter of last year, to give overall growth for 1991 of 1.4 per cent. However, the latest figures show that the economy was flat in the fourth quarter, and that the final figure for growth in 1991 was barely 1 per cent.

The rising trend of the

unemployment figures is an increasing preoccupation for a government facing the prospect of a severe rebuff in next month's regional elections, and the near-certainty of defeat in the general elections a year from now.

During September, October and November the unemployment figures rose steeply. And though the rate of increase appeared to slow significantly in December, the seasonally adjusted unemployment rate at the turn of the year was equivalent to 9.8 per cent of the workforce, compared with 9.1 per cent in 1990.

Mr Pierre Bérégovoy, the finance minister, recently said: "We shall avoid 3m unemployed in 1992." But figures published yesterday show that unemployment rose again in January, to 2.8m.

The Labour Ministry yesterday predicted that the number of job-seekers would decline, in crude terms, in coming months. But the unadjusted unemployment figures are already up to 2,955,617, only a paltry short of the politically fateful figure of 3m despite three job creation packages in less than a year.

If the recession has a silver

### KEY 1992 FORECASTS FOR FRENCH ECONOMY

	OECD	INSEE	BNP	Goldman Sachs
GDP growth %	2.1	1.0	2.1	1.4
Unemployment %	10.1	10.2	n/a	10.3
Trade balance bnFr	-10**	-9.5	-20	-43.8
Inflation (annual rate) %	2.9	1.8	2.9	3.0

\* Forecasts for first half 1992. \*\* US\$bn.  
Sources: OECD Economic Outlook Dec 1991; INSEE December 1991; Bureau National de Paris, 1st quarter 1992; Goldman Sachs, February 1992.

lining, it is the continued fall in inflation and a sharp improvement in trade figures.

The 0.1 per cent increase in the retail price index in December brought the overall increase for 1991 to 3.1 per cent. This was not just an improvement on the previous two years (3.4 per cent in 1990 and 3.6 per cent in 1989), but also a better performance than in most of France's neighbours, including Germany (4.2 per cent), Netherlands (4.9), Italy (6.5) and Switzerland (5.3).

The improved competitiveness of the French economy has been reflected in a sharp recovery in the trade figures. Last year the total trade deficit fell from just over FF50bn (\$8.92bn) to just over FF30bn. The trade deficit

in civil industrial goods fell from nearly FF36bn in 1990 to just over FF19bn in 1991.

France has also made a spectacular turnaround in its trade balance with the rest of the EC, from a deficit of FF36bn in 1990 to a small surplus of FF2bn in 1991.

The positive trend in the trade balance was confirmed yesterday with figures for January, showing a surplus of FF3.6bn compared with a deficit of FF2.7bn in December.

The recession has, however, blown the government's budgetary strategy off course. Last year it managed to stay pretty well within its planned spending limits, but tax receipts collapsed. As a result, the Finance Ministry says the 1991 budget out-turn will be FF123bn, compared with a target of FF80bn.

The knock-on effect of the tax short-fall is that it is doubtful whether the government can stay within its 1992 planned budget deficit of FF90bn. Here the critical unknown factor is the timing of the recovery.

The most recent forecast by the Statistical Office pointed to an annual growth rate of 2 per cent during the first half of this year. This was broadly consistent with the calculations of the OECD, which forecast a rate of 1.9 per cent in the first half, accelerating to 2.4 per cent in the second.

However, both these predictions were made in December, before the depth of the recession was fully known. Moreover, the record suggests that France needs a growth rate of at least 2 per cent to stabilise unemployment and of 3 per cent to bring it down. It is not surprising, therefore, that the OECD forecasts that unemployment will continue to rise this year, before stabilising at slightly more than 10 per cent, not surprising, but very uncomfortable for a Socialist government.

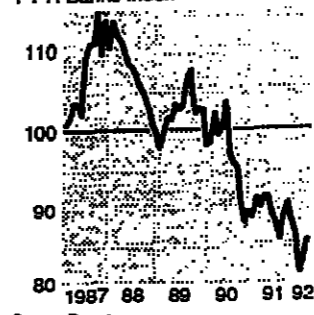
Growing pessimism in Germany, Page 2

## A preference for proper equity

FT-SE index: 2,546.3 (-12.9)

### NatWest

Share price relative to FT-A Banks Index



Source: Datastream

meanwhile, already boosted a point or so by the sale of poor performing oil milling, paper and agricultural merchandising businesses, are set to reach double figures with the cost cutting benefits of the single market programme. Given the huge medium-term potential the shares are well worth holding for an earnings multiple just 5 per cent higher than the market average.

### NatWest

The starting point for a consideration of National Westminster's results is scarcely encouraging. Here is a bank effectively paying a maintained dividend out of capital raised from the market last year. It has only belatedly got round to tightening up its lending practices despite running up £1.5bn in provisions. Operating costs are running well ahead of inflation. Such a past does not easily lend itself to expectations of a glowing future.

To be fair, buoyant commission income helped boost operating profits by 20 per cent compared with just 14 per cent at Lloyds. Yet, if earnings do rebound this year, it will be largely because of falling provisions in the US, spiced by some \$1bn in tax credits carried forward by a now profitable National Westminster Bancorp. There will hardly be a repeat of the 1991 write-back of provisions on problem country debt, however, or of the £52m credit from release of provisions by 31. So the bank will have to make up some ground just to match 1991's pre-tax profits of £110m.

Even assuming NatWest is right to expect some fall in UK provisions this year - and Lloyds takes a somewhat less sanguine view - earnings are unlikely to do much more than cover a maintained dividend in

1992. The lack of profit retention may not matter if loan demand stays weak, but then recovery stock might ask where growth will come from in the medium term. The bank cannot squeeze extra commission out of its customers indefinitely.

### Currencies

It would have been nice for the UK government if yesterday's Spanish rate cut had created some leeway for sterling in the ERM. In the event, the pound remained at its floor against the peseta and both currencies slipped against the D-Mark. If there is to be a UK interest rate cut before the election, it looks as though the government will simply have to ignore the ERM constraint and hope the peseta continues to move with sterling.

That is a risky course, which probably explains why the authorities appear bent on deferring action as long as possible. The danger of delay is that a well-conscious market might infer that the government had lost faith in its ability to win the election. In that case the opportunity to cut might never materialise.

### Coal imports

AB Ports' decision to pull out of the proposed development for coal imports at its Immingham deep-water facility was a surprisingly blunt reaction to a request for a delay from PowerGen. Granted, the issue of coal imports has become a hot political potato. The two electricity generators are in the throes of negotiations with the government over future contracts with British Coal, and are doubtless also worried by the possibility that a Labour government would take a tough line on imports. But it is hard to see why AB Ports should have called such lucrative proceedings to a premature halt when it will presumably have to fund any alternative project itself.

As for what the disappearance of perhaps 10m tonnes of import capacity will mean for the generators further out, it seems safe to assume that National Power will now decide to develop a facility in Teesside as well as Bristol and Hull, while arguably PowerGen had somewhat less need of Immingham in the first place. If UK coal is a little less expensive compared to imports, so much the better for British Coal. A deal before the election seems more likely than ever.

## GEC claims compound is superior to any high-voltage electricity carrier available

# UK researchers find superconductor

By Clive Cookson, Science Editor, in London

BRITISH researchers have discovered a new "high-temperature superconductor" which may be suitable for large-scale applications such as cables that could carry electricity for hundreds of miles without losing energy.

The discovery at the General Electric Company's High Temperature Superconductivity Research Centre in London, followed a two-year search using a robot which made and tested materials with 15,000 different chemical compositions.

The work was part of a collaborative project involving six European companies under the EC's Brite-Euran programme. The original excitement about high-temperature super-

conductors - ceramic materials first made in 1986 which lose all electrical resistance at the temperature of liquid nitrogen (-196 deg C) - had been waning as scientists began to learn more about their disadvantages.

Most serious is the fact that they cannot carry the large currents required for power engineering or to make magnets powerful enough to levitate heavy objects such as trains.

GEC says its new material promises to be "superior to the known high-temperature superconductors in important respects, especially for high current applications".

Details of the compound, which includes seven chemical elements including cadmium, lead and copper, will be published later this week in a specialist journal, Superconductor Science and Technology.

The compound resembles the thallium series, the best superconductors which have been discovered to date, but without its drawbacks of toxicity and volatility.

Although only a few grammes have been made so far, the scientists have established that it is a stable and reproducible material which becomes superconducting at -151 deg C.

The next step will be for

GEC to transfer the material to the other participants in the EC project: BICC, ABB, Alcatel Cable, Pirelli Cavi and Siemens. They will work to develop superconducting cables from it, though these are unlikely to reach the power engineering market for another 10 years.

According to an EC estimate, Europe could theoretically save £2bn a year by replacing its existing power transmission system with superconducting cables cooled by liquid nitrogen.

Another large-scale application, which Japanese electric companies are spending millions of dollars a year to

develop, is energy storage: electricity can flow indefinitely around a superconducting coil until it is needed.

The US has the world's largest research programme into superconductivity, with funding of \$200m a year from the federal government and a further \$100m a year from US industry. Next comes Japan, where government and industry each spend an estimated \$120m a year.

Europe's total superconductivity research programme, funded by national governments, industry and the EC, is slightly smaller than Japan's. But, as the GEC discovery shows, it still delivers results.

## BaE in talks with Japanese groups on regional jet

By Paul Betts, Aerospace Correspondent, in Singapore

BRITISH Aerospace is in talks with Japan's three leading aerospace companies - Kawasaki Heavy Industries, Fuji Heavy Industries and Mitsubishi Heavy Industries - over a possible partnership in the UK group's BAe 146 regional jet programme.

BAe has been seeking industrial partners for its regional jet programme, which has suffered from the slump in civil aviation and the acute financial problems of smaller airlines.

Senior BAe executives confirmed yesterday that the company has had wide-ranging talks with several Japanese and Japanese manufacturers but that it was particularly interested in forging an alliance with Japan.

A Japanese partnership would boost BAe's presence in the Asia-Pacific civil aircraft market, which is expected to show strong growth during the next 10 years.

The Japanese companies are also interested in a partnership venture with an established western aerospace manufacturer, which would give them access to the development of a commercial aircraft programme rather than simply subcontracting work.

Mitsubishi has had discussions with Deutsche Aerospace on co-operation in the regional aircraft sector, but these talks are understood to have failed to make any progress.

Deutsche Aerospace has been seeking to launch a new \$2.5bn regional aircraft programme in co-operation with France and Italy, but the project's timing appears to have been delayed by the current depressed state of the market.

BAe has offered the Japanese manufacturers an opportunity to join its 146 programme, including the development of a new 100-seat regional airliner.

The European Airbus con-

sortium, in which BAe has a 20 per cent stake, has also had preliminary talks with the big three Japanese companies on a possible partnership in the development of a new very large Airbus programme involving a 600-seat jumbo airliner towards the end of the 1990s.

The Japanese companies have so far been tied to Boeing, the world's largest manufacturer of commercial aircraft, but their role in the US company's programmes has been limited to subcontracting.

BAe and Airbus would offer the Japanese the opportunity to share in the development of commercial aircraft programmes, which Boeing has so far been reluctant to do.

BAe has also been seeking a partnership to rationalise its loss-making BAe 146 business as part of the company's overall restructuring strategy.

The UK group has called for a rationalisation of the regional aircraft industry, where competition among companies has become intense because of the large number of rival programmes.

The links between BAe's Rover car subsidiary and Honda, the Japanese group, have helped to increase the UK company's visibility in the Japanese market and given an added boost to the discussions with the three aerospace manufacturers.

BAe this month split its commercial aircraft operations into three separate units to give it greater flexibility in its rationalisation programme and its search for new international partnerships.



Former Japanese prime minister Zenko Suzuki testifies to a parliamentary committee that he received ¥10m from an indicted politician for services rendered. Report, Page 4

## New Tokyo scandal emerges

Continued from Page 1

Exchange Law, which followed last year's scandals and which outlawed the practice of brokers' guaranteeing to buy back stock at a pre-set price. No longer could a broker promise to buy back shares - even if the pledge only covered a short period of time when shares were parked with one client on behalf of the other.

In Cosmo's case, the broker transferred a loss-making portfolio from an unnamed company to the account of Skylark, a restaurant operator. The unnamed company refused to take the securities back so Skylark sued Cosmo and has settled for compensation of

¥36bn. According to Cosmo, the transactions were the work of an individual employee who forged papers needed to transfer the losses to Skylark.

Daiwa also said its dispute with Tokyo Land involved the work of a single employee carrying out unauthorised transactions.

The disclosures highlight the scale of losses suffered by investors in the Japanese stock market since shares plunged in early 1990. "These cases are the tip of the iceberg," said Mr Peter Tasker, research manager at the Tokyo office of Kleinwort Benson, the UK merchant bank. The total capitalisation of companies listed on the First Section of the Tokyo

Stock Exchange has dropped from ¥960,000bn at the end of 1989 to less than ¥350,000bn.

For smaller houses, which are operating deeply in the red because of the slump in stock prices, the losses are even more acute. They are now changing tack. Seeing banks as potential saviours of loss-bound brokerage companies, it is considering raising from 5 per cent to 50 per cent the maximum stake a bank can hold in a securities company.

## Decline in US consumer confidence

Continued from Page 1

Analysts said the most worrying aspect of the confidence survey was a sharp decline in a component measuring future expectations. This fell to 62.2 compared with 68.7 last month and over 100 last summer, suggesting that consumers have

become more pessimistic about economic prospects.

Mr Fabian Linden, for the Conference Board, said the consumer's prime concern was job security. The anxiety was credible given recent statistics which showed a decline in the numbers employed and a cut in the average working week.

Mr Norman Robertson, chief economist at Mellon Bank in Pittsburgh, said the figures made another cut in interest rates likely, probably after next week's employment report.

Consumer spending accounts for two thirds of economic activity.

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### WORLDWIDE WEATHER

Location	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud	Temp	Wind	Cloud																																																																																																																																																										
Alexandria	13	SE	10	Algiers	13	SE	10	Amman	13	SE	10	Antwerp	13	SE	10	Athens	13	SE	10	Bahia	13	SE	10	Bombay	13	SE	10	Buenos Aires	13	SE	10	Calcutta	13	SE	10	Cairo	13	SE	10	Cardiff	13	SE	10	Chennai	13	SE	10	Copenhagen	13	SE	10	Dakar	13	SE	10	Dhaka	13	SE	10	Dublin	13	SE	10	Edinburgh	13	SE	10	Geneva	13	SE	10	Hankow	13	SE	10	Hong Kong	13	SE	10	London	13	SE	10	Los Angeles	13	SE	10	Lyons	13	SE	10	Madrid	13	SE	10	Manchester	13	SE	10	Maracaibo	13	SE	10	Mexico City	13	SE	10	Moscow	13	SE	10	Mumbai	13	SE	10	Nairobi	13	SE	10	Paris	13	SE	10	Rangoon	13	SE	10	Rio de Janeiro	13	SE	10	Rome	13	SE	10	Sao Paulo	13	SE	10	Shanghai	13	SE	10	Singapore	13	SE	10	Stockholm	13	SE	10	Taipei	13	SE	10	Tokyo	13	SE	10	Toronto	13	SE	10	Ulaanbaatar	13	SE	10	Washington	13	SE	10	Yokohama	13	SE	10

Temperatures at midday yesterday. C-Celsius. D-Dew Point. F-Fahrenheit. H-Humidity. N-Night. S-Sun. SE-South East. T-Thunder.

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## INSIDE

### SmithKline Beecham profits reach £1bn

**SB** SmithKline Beecham, the Anglo-American pharmaceutical and consumer products group, yesterday reported a 17 per cent rise in pre-tax profits, pushing them across the £1bn (\$1.74bn) threshold for the first time. Mr Robert Bauman, SmithKline's chief executive, said the results were excellent in spite of the 2 per cent drop in turnover to £4.68bn. Trading conditions in the US consumer market were described by Bauman as "tough". Page 20

### Sweeping reforms in Mexico

The Mexican government's sweeping reforms to compulsory pension and housing funds may bring long-term stability to the country's notoriously volatile capital markets. The changes, which require employers to pay 2 per cent of employees' salary into personal pension funds administered by the commercial banks, and 5 per cent of salary into personal housing funds administered by a housing agency, are expected to boost domestic savings by \$1bn in the first year of operation. Page 15

### GM profits fall 8% in Europe

**GM** Net profit of the European operations of General Motors fell last year by 7.9 per cent to \$1.76bn from a record \$1.92bn in 1990. In spite of the modest decline GM was probably still the most profitable of the big six volume carmakers in Europe last year, however, with a 7 per cent net profit margin. Page 16

### The 386 battle rages on

The five-year bitter dispute between Intel and Advanced Micro Devices over the 386 microprocessor shows no sign of ending. Intel has decided to challenge an arbitrator's award to AMD of rights to any Intel technology that it might wish to incorporate into its own version of the 386. Now with both sides claiming the arbitration decision as a victory, competition between the chipmakers is set to force prices even lower. Page 17

### First-half loss for TNT

TNT, the Australian transport group, yesterday blamed recession and stiff competition for a first-half net equity accounted loss of A\$40m (US\$24.5m) compared with a profit of A\$49m in the corresponding period of the previous year. After taking account of abnormal items, the loss increased to A\$51m. Page 17

### Farmers fear CAP won't fit

The future of Finnish agriculture looks like the only serious obstacle in the way of Finland's membership of the European Community. A formal entry application is expected to be forwarded to Brussels by the middle of next month, but the government of the rural-based Centre party is well aware of the anxieties among many Finnish farmers who fear they may lose their livelihoods if Finland adopts the EC's common agricultural policy. Page 22

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### Chief price changes yesterday

FRANKFURT (DM)		PARIS (FF)	
Rhine	226 + 5	Rhine	778 + 25
Polys Kom	570.5 + 10.5	East	407 + 22.9
Paris	850 - 10	East	1535 + 62
London	388 - 13	Paris	486.1 - 18.9
London	819 - 10	London	1892 - 5.3
London	525 - 9	London	590 - 20
NEW YORK (\$)		TOKYO (Yen)	
Rhine	73.4 + 1.4	Rhine	2000 + 150
Polys Kom	1740 + 80	East	1740 + 80
Paris	35 + 1.4	East	1250 + 50
London	101 - 5	London	1250 + 50
London	132 + 1.4	London	1250 + 50
London	100 - 1.4	London	1250 + 50

LONDON (Pence)		STOCKS	
Rhine	226 + 5	Rhine	778 + 25
Polys Kom	570.5 + 10.5	East	407 + 22.9
Paris	850 - 10	East	1535 + 62
London	388 - 13	Paris	486.1 - 18.9
London	819 - 10	London	1892 - 5.3
London	525 - 9	London	590 - 20

## Fraud inquiry into sale of Perrier stake

By William Dawkins in Paris

FRENCH police have been called in to investigate suspected irregularities in the sale of a stake in Perrier, the mineral water group, to Saint Louis, the sugar group, allied to Italy's Agnelli family. Mr Hubert Gaszowski, for the public prosecutor's office, yesterday told the Paris commercial court that a preliminary inquiry into possible "penal infractions" had been handed to the fraud squad. Legal officials said investigators would be looking for insider trading.

This latest twist in the increasingly bitter struggle for control of Perrier coincided with the first day of one of two court cases in which Nestlé, the Swiss food multinational, is seeking to reduce the Agnelli stake.

An Agnelli holding company launched an agreed bid for Exor, a French holding company owning 35 per cent of Perrier, late last year. The subsequent purchase of more Perrier shares by Saint Louis allowed the Agnelli camp to lift its stake in the water company to 49 per cent, only days ahead of a hostile FF13.4bn (\$2.35bn) bid for Perrier from Nestlé, four weeks ago.

The Swiss group's hopes of acquiring Perrier hinge largely on its winning at least one of the legal cases. Nestlé had an initial

setback yesterday when the public prosecutor advised the Paris court to uphold the sale of a 13.8 per cent stake in Perrier to Saint Louis. The Swiss group's lawyers claim the sale is "fraudulent" and should be annulled because Perrier and Saint-Louis both knew that the Swiss company was about to launch a bid, and at a higher price.

Mr Gaszowski said an inquiry by the Commission des Opérations de Bourse, the stock market watchdog, showed there was no proof that Mr Jacques Vincent, Perrier's chairman, knew about the impending Nestlé bid at the time, so the sale to Saint Louis was valid.

The case appeared to swing back in Nestlé's favour again when Mr Gaszowski announced the police inquiry. The Paris court, which can choose whether to follow the prosecutor's recommendations, is to issue its judgement on March 16.

Nestlé's other case is in Nîmes, near Perrier's main plant in southern France, where it has challenged Exor's voting rights on its 35 per cent stake. The public prosecutor has advised the Nîmes court to reduce the voting rights of Exor and its allies to 20 per cent for two years. A decision is expected on March 6.

## Record UK loan losses shrink NatWest results

By Robert Peston in London

RECORD losses on UK loans in 1991 led to a collapse in the profits of National Westminster, the UK clearing bank, to their lowest level since 1975.

As a result, the bank plans to cut staff numbers by at least 4,000 this year, having shed 5,400 jobs last year.

NatWest's pre-tax profits last year dropped 78 per cent to £110m (£195m) due to a bad debt charge of £1.99bn, which included losses on UK lending of £1.45bn, the biggest ever incurred by a UK bank.

The poor results - which meant that NatWest had to withdraw £220m from reserves to pay a maintained dividend of 17.5p a share - represent a sharp reversal in its fortunes. Only three years ago it made pre-tax profits of £1.1bn, more than any other UK bank before or since.

None the less its trading surplus in 1991 rose 20 per cent to a

record £2.03bn, largely due to a sharp rise in commissions.

NatWest's bad debt charge meant that its UK financial services division - the heart of its business and including its 2,816 branches - made a loss of £50m for the first time.

Lord Alexander, chairman, said that there had been "some departures from the principles of sound lending".

Mr Tom Frost, who has been group chief executive since 1987 and retired next year, said it was bad banking practice to sack staff for making bad loans. Bankers "would not lend any money at all", he feared their jobs were on the line for lending mistakes.

NatWest's losses to the Maxwell empire were lower than expected, at £50m, according to

Lex, Page 14  
Background, Page 20

## Rand Araskog talks to Martin Dickson and Ian Hargreaves

ITT, the US company which more than any other has symbolised the now unfashionable idea of conglomeracy, may be about to pull a dramatic curtain down on this era. But then again, just maybe it won't.

What is certain is that ITT's board is yet again considering ways to improve the lacklustre performance of its shares by making the company more appealing to investors.

And the options passing through the mind of Mr Rand Araskog, chairman for the past 11 years, include splitting the business into smaller and more clearly identifiable pieces.

"We want our company to be more exciting to the investment community than it is," Mr Araskog said earlier this month shortly before ITT reported a 15 per cent drop in 1991 income to \$817m. He complains that its stock, just under \$60, is undervalued by the market yet could trade at \$80 or more "if we get a little perception change".

While carefully unapologetic about his plans, he makes plain one theoretical option is to split off the group's financial services operations, dominated by the ITT Hartford insurance group, from its manufacturing businesses, which range from automotive and electronic components to pumps, valves and paper manufacturing.

ITT's Sheraton hotel group "could easily be a stand-alone company. Its major competitors - Marriott, Hilton, Trusthouse Forte - are all independent companies".

Certainly, financial services and insurance companies tend to attract lower market ratings, which have helped to hold down ITT's price/earnings ratio.

And there are several precedents for such a move. But in the case of ITT any split-up would be the end of an era.

In the 1970s the company came to symbolise the fashion for conglomeracy as Mr Harold Geneen, chairman, took it on an acquisition spree far beyond its roots in telecommunications equipment manufacturing.

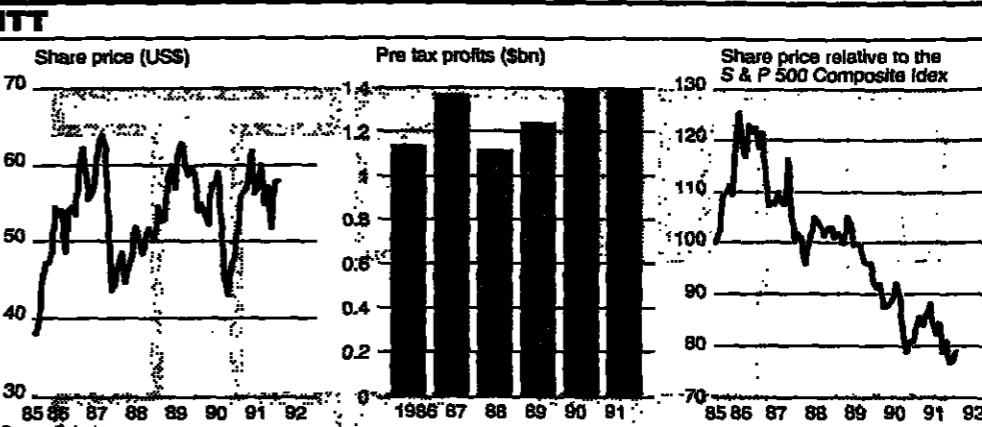
His battle cry was "synergy", his weapon the agreed takeover, his target a while Wall Street loved it.

When Mr Araskog took over as chairman in 1980 he inherited a company which was unwieldy, unfocused, heavily in debt and, as Fortune magazine said, "a museum of the investment and management ideas of the 1960s".

He spent much of the 1980s sharply reducing its size and improving its financial shape by selling off dozens of industrial companies and cutting fat at the remainder - while fighting off a succession of corporate raiders keen to carve ITT up completely.

The most dramatic move was the much-lauded sale in 1986 of a majority stake in ITT's core telecommunications business to CGE of France, which merged it with its own operations to create

## ITT changes image as it seeks riches



### Alcatel, the world's largest telecommunications equipment company

ITT retains a 30 per cent stake in the company and Mr Araskog, also chairman of Alcatel, says he has resisted pressures to sell the remaining stake because of the "excellent cash flow from Alcatel".

The net result is a slimmer and financially sounder ITT, whose ambition is to be a market leader in each of its product areas.

In spite of this, the group remains out of favour on Wall Street and among institutional investors.

This is partly because of the group's lacklustre profits performance over the past few years, when it has repeatedly failed to reach its declared goal of a 15 per cent return on shareholders' equity - in spite of a heavy programme of buying in its own shares.

Admittedly, many of its businesses are cyclical, and have been hit hard by the US recession. Last year's Gulf war knocked the hotels business sideways and the Hartford - well regarded for its conservative management and fast-growing life business - has had to grapple with a general downturn in the property/casualty sector.

But in spite of these external factors, some analysts question whether all its businesses are being run as hard as they might, and wonder about its strategic focus.

Nor was the group's image helped last year by a row with a leading institutional investor over the size (estimated at up to \$12m) and percentage increase (100 per cent) of Mr Araskog's pay package when the group's financial results were so uninspiring.



Rand Araskog: prepared to surprise investors

Nor does he yet seem committed to radical change in ITT's conglomerate nature; he is torn, not for the first time, between the big strategic move and a pragmatic, incremental approach to improving financial performance.

On the one hand, he says until now the board has believed the differing qualities of the group's component parts add up to a strong whole.

On the other, he acknowledges "there is very little synergy between the service companies and manufacturing".

But with the financial flexibility of ITT's strong balance sheet he does hold out the possibility of a string of new deals, he says, acquisitions or joint ventures.

Just last week, for example, Sheraton agreed to buy or lease eight hotels from rival Marriott. Certainly, Mr Araskog showed canny timing with his string of deals in the mid-1980s, which the 60-year-old chairman eagerly recalls in some detail when asked to summarise ITT's strategic shifts in the past decade.

But the question which has hung over ITT since the Alcatel deal remains as central today as five years ago: can Mr Araskog, together with two lieutenants fighting to succeed him - Mr Travis Engen on the manufacturing side and Mr Dale Conner on financial services - grow profits as well as his company's long record in cutting a deal? The answer should emerge over the next two years as the US recession ends and the new management pay scheme goes into effect. But the immediate challenge Mr Araskog perceives is to boost the share price.

The aim, he says, is "to make the company more identifiable, and if that means doing things that are a little bit surprising... then I'm prepared to do that".



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## INTERNATIONAL COMPANIES AND FINANCE

## Lorrho may negotiate an early end to VAG deal

By Roland Rudd in London

LORRHO, the international trading conglomerate, may negotiate an early end to its Volkswagen/Audi import and distribution operations in the UK which accounts for more than one-fifth of its worldwide turnover.

The group, which is understood to be pessimistic about the future of all non-Japanese car sales in the UK, believes it may be in its interest to negotiate an early end to the contract, which is not due to expire until the end of 1993.

Seven years ago the pre-tax profit forecasts for 1990 for the business operated by VAG, a Lorrho subsidiary, were around £60m (£105m). However, last year taxable profits fell by 11 per cent to £20m from £22.5m a year earlier.

The alternative being considered is to negotiate an early end to the contract this year which could be worth £180m.

assets are valued at £100m and compensation for an early cessation of the contract could be worth another £60m. If this happened, Lorrho would be likely to take the extra £60m above the line, boosting this year's overall pre-tax profits.

While the extra UK profits would help mitigate this year's problems over advance corporation tax (ACT), in the long term the loss of the UK business would be likely to add to them. Its 1990 accounts show that there was £79m of unused ACT because the group does not make sufficient profits to offset fully against ACT.

VAG's pre-tax profits accounted for almost 10 per cent of Lorrho's total pre-tax profits of £207m in the year to September 1990.

Mr Charles Bell, conglomerate analyst at Nomura, said: "The group are indicating that change may not necessarily be

a bad thing if it comes, especially if VAG's future profits are impaired by the rising market share of Japanese transplants in the UK new car market."

The news that Lorrho is considering negotiating an early end to the Volkswagen/Audi import and distribution operations in the UK may fuel speculation the German car-maker planned to take control of the business at the end of 1993.

VW, the leading European car-maker, is keen to control distribution in all five European large volume markets. In recent years, it has added ownership of the Spanish and Italian operations to its control in Germany and France.

Lorrho is adamant it has not been told Volkswagen wants to take control of the business operated by VAG and it may still renew the contract in 1993.

## ECC plans to raise £209m from rights issue

By Andrew Taylor in London

ECC Group, the world's largest supplier of china clay, yesterday announced plans to raise £209m (£353.3m) from a rights issue. The money is to be used by ECC to redeem \$350m of US auction market preferred shares (Amps).

The group is the second British company to announce plans to redeem a large tranche of Amps. The move will increase nervousness in a controversial issue of the bond market.

Several large UK companies, some of which are heavily borrowed and have fallen on hard times due to the recession, have issued Amps. The stock has been classified as equity although the shares have many characteristics of debt.

Some of the issues made by UK companies during the late 1980s have run into trouble recently. Rataner, the UK jeweller, announced it was suspending payments of all preference dividends including those on \$250m of Amps. Previous auctions of Rataner preferred shares in the US had failed to attract bidders.

Mr Andrew Teare, ECC's chief executive, said yesterday there was no danger of ECC's credit rating being downgraded. Nonetheless, general concern about the Amps market had pushed dividends above the cost of other forms of US commercial paper.

"The directors have come to the view that auction preference shares are no longer a satisfactory long-term source of shareholders funds and that permanent ordinary share capital is a more secure platform for further development of the group."

The company is offering six of its shares, priced at 415p each, for every 25 already held.

The group also announced pre-tax profits for year to end-December were estimated to be £115.4m, more than 50 per cent higher than the £73.3m earned in 1990. Excluding exceptional items the rise was 7.5 per cent.

## GM's European operations slip 8%

By Kevin Done, Motor Industry Correspondent

THE NET profit of the European operations of General Motors, the world's largest vehicle maker, fell last year by 7.5 per cent to \$1.76bn from a record \$1.92bn in 1990.

Despite the modest decline, GM was probably still the most profitable of the big six volume car-makers in Europe last year, with a 7 per cent net profit margin.

The profits of GM's European operations are a stark contrast to the record losses suffered by the group in the US last year, which totalled \$7.087bn including a \$1.77bn special restructuring provision.

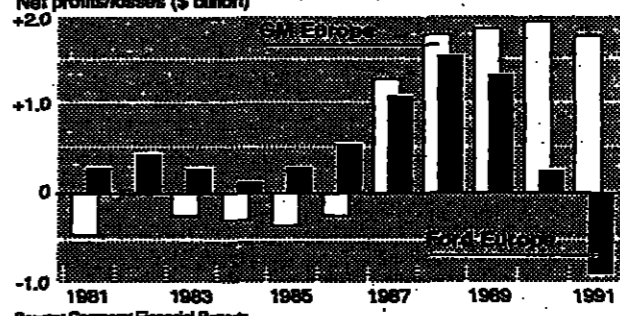
The European profits provided a partial cushion for the US losses but could not prevent the group suffering an overall loss of \$4.5bn, the largest annual loss ever recorded by a US company.

It is understood the net profits of GM Europe's core Opel/Vauxhall car and light commercial vehicle operations rose marginally last year to a record \$1.96bn, despite the launch costs for its new generation Astra small family car, GM's best-selling car in Europe.

The overall GM Europe profit of \$1.76bn contrasts sharply with the net loss of \$961m announced earlier this month by Ford, its domestic rival, for its European

## General Motors and Ford in Europe

Net profits/losses (\$ billion)



Source: Company Financial Reports

operations. While GM's European profits have totalled more than \$1.75bn in each of the last four years, Ford has suffered a steep decline from a net profit of \$1.56bn in 1986, to a net loss of \$961m last year.

Ford's European automotive operations accumulated a net loss of \$1.079bn last year, which was partially offset by a net profit of \$118m achieved by its financial services in Europe.

While GM's core Opel/Vauxhall operations achieved a \$1.96bn net profit in Europe, the group's overall profit in Europe was reduced to \$1.76bn by several factors including:

- Its share of losses at Saab Automobile, the Swedish car-maker where GM holds a 50 per cent stake and management control.
- The continuing losses suffered by Group Lotus, the specialist UK sports car-maker and automotive engineering consultant.
- Its share of losses at Avis Europe, the car leasing and rental group.
- Reduced profits at its GMAC financial services operations, and losses at the GM Hughes Electronics subsidiary in Europe.

Most importantly, Opel captured a 17.2 per cent share of last year's booming German market, with sales in Germany of 717,100.

In the UK, Vauxhall's sales fell 23 per cent to 248,704, while its UK market share was reduced to 15.6 per cent from 16.1 per cent a year earlier.

Overall in western Europe, GM claimed a record car market share for its Opel/Vauxhall marques of 11.6 per cent marginally higher than the 11.5 per cent that was achieved a year earlier.

GM is forecasting sales of 700,000 for its new generation Astra range this year, with combined sales and new orders of 400,000 since its launch in mid-October last year.

## Strong exports help EDF advance

By William Dawkins

ELECTRICITE de France (EdF), the power utility which is western Europe's largest energy exporter, yesterday reported a steep rise in profits.

Net earnings at EdF rose from FF100m (\$17.8m) in 1990 to FF150m (\$25.5m) in 1991, a 50 per cent increase. The rise was due to a 50 per cent increase in government-owned, on-turnover up by 9.6 per cent from FF156.5bn to FF171.4bn.

Mr Pierre Delaporte, president, attributed the improvement to a strong rise in demand for EdF electricity from Britain and Germany, with a steady rise in French

domestic sales. He expected FF22bn of profits this year.

There was also a fall in debt charges as EdF used its cash flow to reduce the huge borrowings accumulated during its ambitious nuclear power station programme of the past 20 years. Nuclear plant accounted for 77 per cent of EdF output last year, making France the world's most nuclear dependent country.

Export sales rose by 18 per cent to FF12bn, representing 53.4bn kilowatt hours (kWh) out of total output of 406.5 kWh. Within this, British

demand rose by 42 per cent to 16.8bn kWh, seen as a mark of the disorganisation of its own electricity industry and making it by far EdF's largest export customer.

EdF has been criticised for having surplus nuclear capacity. But, the continuing rise in sales should bring demand in line with capacity by 1996, said Mr Jean Bergougnoux, managing director.

Debits fell by FF12bn per cent over the year to FF21.4bn and should fall below FF20bn by the end of 1992, said Mr Delaporte.

## Heavy credit losses put SEB in reverse

By Robert Taylor in Stockholm

SKANDINAVISKA Enskilda Banken, Sweden's largest commercial bank, reported a 29.3 per cent fall in operating profits to SKr7.3bn (\$393m) for 1991 after heavy credit losses.

If the credit losses were excluded from the results, SEB said it would have lifted profits

by SKr1.625bn to SKr7.96bn. SEB's rate of return on equity after tax was 7.6 per cent last year, down from 11.5 per cent in 1990, while earnings per share dropped to SKr4.50 from SKr7.61. The dividend for series A and C shares is rising to SKr3.35 from SKr3.30 within

the framework of an unchanged dividend cost to the company of SKr883m.

Credit losses were SKr4.76bn last year, 1.5 per cent of all loans and a 144 per cent increase over the SKr3.1bn of 1990. Year-end unsettled claims were SKr5.5bn.

## Management crisis at Porsche averted

By John Griffiths

THE emergency meeting of the supervisory board of Porsche yesterday succumbed to an ultimatum from Mr Wolfgang Reitzle, research and development director of executive BMW, the executive car-maker. It is understood this offer was made by Dr Ferdinand Porsche, chairman of the Porsche supervisory board.

Subsequently, a regular meeting of the Porsche supervisory board last week failed to muster the two-thirds majority needed to endorse the extension of Mr Bohn's existing contract after it runs out at the end of this year.

Almost immediately afterwards, Dr Reitzle, who is seen as a self-appointed BMW's 60-year-old management boss, chairman, Dr Eberhard von

with the board by a series of events over the past fortnight. The crisis was triggered by the offer of his job to Dr Wolfgang Reitzle, research and development director of executive BMW, the executive car-maker. It is understood this offer was made by Dr Ferdinand Porsche, chairman of the Porsche supervisory board.

Subsequently, a regular meeting of the Porsche supervisory board last week failed to muster the two-thirds majority needed to endorse the extension of Mr Bohn's existing contract after it runs out at the end of this year.

Almost immediately afterwards, Dr Reitzle, who is seen as a self-appointed BMW's 60-year-old management boss, chairman, Dr Eberhard von

Kuenheim, said he had decided not to take up Porsche's offer. Mr Bohn described the board's actions as "damaging" for the company and said he would "not be available for reappointment" if the board did not give him unconditional backing.

The company last night offered a "no comment" to questions about the long-term implications of the dispute for Porsche's management.

The dispute has come at a bad time for Porsche, whose worldwide sales have fallen sharply. Some 4,000 workers are on short time, following a fall in 1991 sales to 26,200 - 4,000 fewer than in 1990 - and little more than half the 50,000 vehicles sold in Porsche's peak year of 1986.

## Consortium may acquire 49% Noverco stake

A CONSORTIUM made up of Tractebel, the Belgian energy distributor, and Total, the French integrated oil and gas company, is negotiating to buy a 49 per cent interest in Noverco, the Quebec natural gas distributor, held by two Quebec government agencies, writes Robert Gibbons in Montreal.

The 49 per cent stake has been for sale for over a year. The two Quebec agencies, the Caisse de Depot, the public pension plan's investment arm, and Soquip, the provincial energy agency, bought the Noverco block from a Quebec entrepreneur for almost \$500m (US\$372.7m).

Tractebel and Total may seek a full 50 per cent.

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The Board of Management of Wereldhave N.V. (formerly N.V. Beleggingsmaatschappij Wereldhave) announce that the existing "K" and "CF" bearer certificates should be exchanged for new certificates which are obtainable in denominations of 1, 5, 25, 50, 500 and 5,000 shares of Dfl. 20 each.

Existing certificates should be lodged for exchange in the Netherlands with Pierson, Helderling & Pierson N.V., Kempen & Co. N.V., Rabobank Nederland, ABN AMRO Bank N.V., Bank Mees & Hope NV or Credit Lyonnais Bank Nederland N.V. and in the United Kingdom with Morgan Grenfell & Co. Limited, 23 Great Winchester Street, London EC2P 2AX.

The Hague, February 26, 1992  
Board of Management

**Notice of Redemption**

Den norske Bank AS (formerly Bergen Bank AS)

Yen 3,000,000,000 7.3 per cent Notes due 1994

NOTICE IS HEREBY GIVEN pursuant to Condition 6(c) of the terms and conditions of the above-mentioned Notes, that Den norske Bank AS, formerly known as Bergen Bank AS, (the "Bank") has elected to redeem on 3rd April 1992 (the "Redemption Date") all of its outstanding YEN 3,000,000,000 7.3 per cent Notes due 1994 at their redemption amount. This will be calculated by The Industrial Bank of Japan, Limited, as Calculation Agent on or after 19th March 1992.

The Notes should be presented and surrendered to the paying agents (as shown on the reverse of the Notes) on the Redemption Date.

26th February 1992  
By: Citibank, N.A. (CIB) Dept  
London Principal Paying Agent

**CITIBANK**

TO THE HOLDERS OF WARRANTS TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF

**marudai FOOD CO., LTD.**  
(the "Company")

Issued in conjunction with the issue by the Company of U.S.\$100,000,000 5 1/2% per cent Bonds, 1992 with Warrants

**NOTICE OF ADJUSTMENT OF SUBSCRIPTION PRICE**

Pursuant to Clauses 3 and 4 of the instrument dated 8th October, 1988 under which the above described Warrants were issued, notice is hereby given that as a result of the issuance of DM150,000,000 4 1/2% Deutsche Mark Bonds of 1992/1996 Warrants of the Company on 13th February, 1992 with an initial subscription price per share of ¥955, being less than the current market price per share, the Subscription Price of the above described Warrants has been adjusted in accordance with Clause 3 of the instrument with effect from 13th February, 1992, as follows:

Subscription Price before adjustment Yen 1,230.00  
Subscription Price after adjustment Yen 1,217.30

**MARUDAI FOOD CO., LTD.**  
By: The Sumitomo Bank, Limited  
as Principal Paying Agent

Dated: 26th February, 1992

**Standard Chartered**

**Standard Chartered PLC**  
(Incorporated with limited liability in England)

**£150 million Subordinated Floating Rate Notes due 1996**

In accordance with the provisions of the Notes, notice is hereby given that for the three month period from 24th February 1992 to 26th May 1992 the Notes will bear interest at the rate of 10.4125 per cent per annum.

Interest per £5,000 Note will amount to £130.87 and will be paid for value 24th May 1992 against surrender of Coupon No 24.

**Chartered WestLB Limited**  
Agent Bank

**COMMERCIAL UNION PRIVILEGE PORTFOLIO, SICAV**  
14, rue Pierre d'Aspelt  
L-2016 LUXEMBOURG  
R.C. Luxembourg No. 532648

**DIVIDEND ANNOUNCEMENT**

Commercial Union Privilege Portfolio announces dividends in respect of the following funds payable on 26th February 1992:

Fund	Dividend	per share
Shilling Reserve Fund	£1.50	per share
US Dollar Reserve Fund	\$1.50	per share
Deutsche Mark Reserve Fund	DM 1.50	per share
Yen Reserve Fund	¥1.50	per share
Franken Reserve Fund	FF 1.50	per share

Dividends are payable to holders of bearer shares against presentation of coupon No.2 to:

**TSE PRIVATE BANK INTERNATIONAL S.A.**  
1, rue de la Loi  
P.O. Box 405  
L-2016 LUXEMBOURG

The Board of Directors









## UK COMPANY NEWS

Paint sales lift  
Kalon to £9.2m

By Jane Fuller

A BUMPER last quarter for paint sales to DIY chains helped Kalon Group raise pre-tax profit by 57 per cent last year, from £5.87m to £9.2m.

The group also benefited from the rapid growth of its sundries range, including paint stripper and adhesives. In the past two years annual sales have leapt from £5m to £10.5m.

Mr Mike Hennessy, managing director, said most of the products were supplied in-house, so boosting margins.

The improvement showed through at group operating level, where profit rose by 40 per cent to £9.2m (£5.87m) on sales up 13 per cent to £38.5m (£27.7m).

Interest turned from a £686,000 charge to a small income as year-end cash balances grew to £13.7m (£3.1m). Virtually all the profit came from the decorative division, which made £10m pre-tax on sales of £27.3m.

Prices went up by 10 per cent early in the year, with wage and raw material inflation only 5 per cent.

Volume growth had slowed through especially in the last quarter as DIY chains to which Kalon supplies own label products mounted aggressive promotional campaigns.

In retail paint, the market was flat, but Kalon's volume was 18 per cent up and it claimed its market share improved from 22 to 27 per cent.

This partly reflected the greater proportion of the market - 36 rather than 31 per cent - taken by the stores' own label paint at the expense

of branded products.

Losses were roughly doubled at three small, problematic divisions: chemicals, industrial coatings and Spain. Between them the deficit was £1.12m on turnover of £11.6m.

Top management has been changed in all three areas and Mr Hennessy said this was the year for "resolving" their future.

Earnings per share rose to 5.28p (3.64p). A final dividend of 1.5p makes a total of 2.2p (1.5p).

## COMMENT

With the DIY enthusiast flushed out of hibernation by the aggressive marketing of B&Q and Texas Homecare, 1991 was the first year of serious volume growth since Kalon's in-the-red year in 1987.

While the group's market leadership in own-label paint limits the scope for growth there, the potential remains strong in sundries and the expanding Leyland trade centre chain; and the resources are clearly available for acquisitions. All this makes the tiny loss-making divisions look even more incongruous.

The crunch is coming when they must be either disposed of or expanded to a more viable size. Nevertheless, damage reduction by the new managers should help profits this year. With the pre-tax figure forecast to reach at least £11m, the prospective multiple of 16 is at a deserved premium to the market. But after a near tripling of the share price in the past 12 months, further growth will probably be medium term.

## StanChart sets up deal with First Interstate

By David Barchard

STANDARD Chartered, the UK banking group, and First Interstate Bancorp of Los Angeles yesterday announced that they are to join forces in three business areas by merging some of their operations.

No legal entities are involved and there is no payment by either side. However, some customers, tangible assets, and banking assets will be transferred to Standard Chartered.

The two sides have signed a letter of intent, but they will carry out due diligence investigations and obtain regulatory consents before the deal is finalised.

Mr Christopher Castleman, executive director financial services at Standard Chartered, said: "We regard this as being a very interesting enhancement to areas of our activity which are directly ones we want to grow with some very good people from First Interstate who will be joining us."

He said the deal would complement and reinforce Standard Chartered's existing core businesses and branch network in the Asia Pacific region.

The transfer of assets from First Interstate will not exceed £600m and is not expected to have an adverse effect on its capital strength.

Three business areas are involved in the deal: First Interstate's trade-related correspondent banking business, which is dominated by the Asia Pacific region but includes some Mexican business; corporate finance, principally some

structure of Mexican paper with Latin bank guarantees and securities issues in the US; and a foreign exchange and derivatives business.

Mr Castleman said that the new businesses would fit well into existing operations and were totally in line with the bank's strategy.

Mr Edward Carson, chairman and chief executive officer of First Interstate, said that the businesses had been consistently profitable. The transfer would allow it to focus on domestic markets.

Recession and Gulf war hold back Unilever profits  
Guy de Jonquieres analyses the facts and figures behind the static 1991 results

THE DEEPER-than-expected recession in the US and the UK coupled with the Gulf war, the collapse of the Soviet Union and adverse currency movements held Unilever to 1 per cent growth in pre-tax profits and sales volumes last year.

Nonetheless, the sluggish overall results were relieved by some strong performances by individual businesses. The company also continued to spend heavily on new products - backed by a 10 per cent increase in marketing expenditure to £2.3bn.

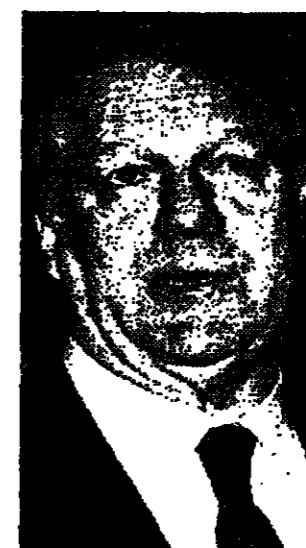
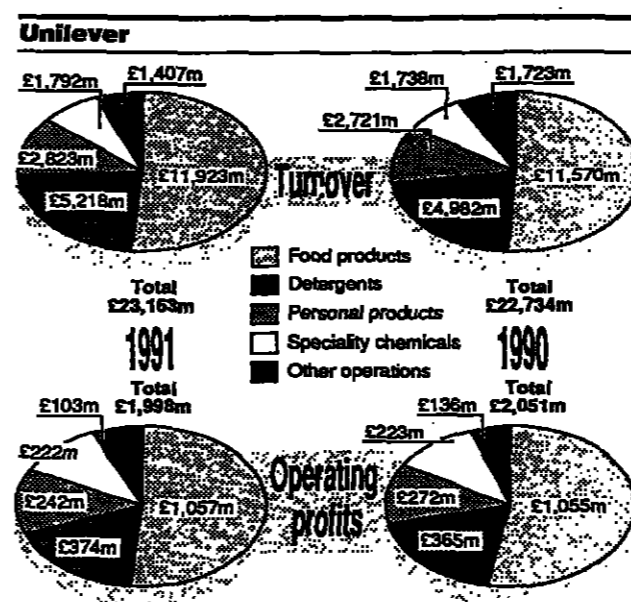
Unilever's overall operating margin declined from 9 per cent to 8.6 per cent. It said the fall was due to currency movements and the impact of exceptional gains on 1990's results. Before exceptional gains, operating profit was £75m higher at constant exchange rates.

The year produced a particularly mixed picture in foods, Unilever's largest business, where operating profits were static at £1.06bn on sales of £11.8bn (£11.8bn).

Consumer foods performed well, particularly in Europe, where ice-cream sales exceeded 1990's record levels.

Prepared meals, sauces and edible fats - particularly European healthy eating ranges - all enjoyed good growth, though tea faced increasingly fierce competition.

However, these positive



Sir Michael Angus, the group's retiring chairman

developments were offset by a decline in results from food service and catering supply operations, which were hard hit by the effects of the Gulf war on travel and the restaurant trade. Though the business recovered in Europe later in the year, it remained depressed in the US by recession.

Unilever also said its exports to the Soviet Union suffered from the political and economic upheavals there. The company was, however, steadily expanding its presence in eastern and central Europe, where it expected to make further acquisitions and investments in the coming months.

A rapid rate of innovation, notably in concentrated washing powders, helped detergents to increase sales volumes and market share.

Operating profit rose to £374m (£365m) on sales of

£5.2bn (£4.98bn), reflecting margin improvements due to cost reductions.

Operating profit on personal products fell to £242m (£272m) on sales of £2.82bn (£2.72bn), reflecting lower duty-free sales of prestige lines and weaker US demand for mass-market products.

In contrast, prestige brands such as Ralph Lauren and Elizabeth Arden's top-of-the-range cosmetics had an "excellent"

year, recording double-digit sales increases.

Action was under way to improve Elizabeth Arden's efficiency. Sales of Chesebrough-Ponds, Unilever's US subsidiary, also fell "materially" last year. A management reorganisation was expected to produce increased profits this year.

The group said the reorganisation of its European businesses in preparation for the single market was proceeding well. About half the £195m after-tax charge it had made for European restructuring had been committed, and a total of 60 projects had been identified.

Events in the Middle East and the Soviet Union disrupted the specialty chemicals business, which turned in flat profits of £222m (£223m) on sales of £1.79bn (£1.74bn). Nonetheless, National Starch enjoyed an excellent performance, though Unichema International and Crossfield encountered more difficult conditions.

Unilever said it had significantly improved its position in Japan, though it was continuing to make losses there which had been magnified by the strength of the yen. The company said it was determined to remain in "key Japanese markets" over the long term.

The company said its businesses in Chile, Argentina, India and South Africa all enjoyed an "excellent" year.

## Mersey Docks at record £13m

By Ian Hamilton Fazey, Northern Correspondent

THE MERSEY Docks and Harbour Company defied recession in 1991 with pre-tax profits ahead 22 per cent, from £10.8m to a record £13.2m. Turnover advanced 27 per cent to £68.5m.

The company, which operates the Port of Liverpool, won new business to push cargo volume up 7 per cent to a new high of nearly 25m tonnes.

Earnings per share fell to 16.96p (17.92p), but only because the company had to make provision for tax for the first time after using up allowances from 13 years of losses up to 1984. Earnings would otherwise have been 22p. A proposed final dividend of 4p lifts the year's total by 1p to 6p.

The company, which returned to the dividend list

two years ago after the government had written off more than £100m of debts incurred in restructuring, has increased profits by more than 50 per cent since 1988.

Mr Bill Slater, chairman, said that Liverpool was now able to exploit both its position as Britain's last large west coast port and the improved infrastructure of northern England and the Midlands when compared with the overcrowded south-east.

This made it cheaper to use Liverpool for many cargoes because of lower land haulage costs and easier access. He predicted that competitive pressures would force closure of "a major port" in an arc running from East Anglia to the Solent

during the next five years.

He forecast Liverpool's position would improve further as it developed as a hub for grouped trade finance.

The company had also developed property in its disused docklands on both the Liverpool and Birkenhead sides of the Mersey, involving a business park and conversion of old warehouses into luxury apartments that had sold well.

Property assets were revalued on December 31 at £119.7m, giving rise to revaluation surplus of £69m over their previous 1981 book value.

## London Forfeiting rises by 67% to top £15m

By Angus Foster

LONDON Forfeiting Company, the specialist trade finance house, yesterday reported a 67 per cent increase in pre-tax profits to £15.1m in the 1991 year.

The previous year's profit was £9.05m.

Mr Jack Wilson, chief executive, said the improvement stemmed from concentrating on the core forfeiting business while withdrawing from areas such as project finance and Eurobonds.

Forfeiting is the provision of trade finance through fixed rate loans which are sold at a discount to investors such as banks.

Trading income increased from £11.8m to £17.3m and net interest received increased to 4.96m (£3.69m).

Earnings per share more than doubled to 11.52p (5.71p). An increased final dividend of 5p is recommended, making a total for the year of 7.62p (7.25p).

The company said its Middle East operations, based in Cyprus, increased profits following the ending of the Gulf war.

The Hong Kong office and Italian subsidiary performed well. It has also established a representative office in New York.

DIVIDENDS ANNOUNCED					
	Current payment	Date of payment	Corresponding dividend	Total last year	Total this year
Addison	0.15	May 1	nil	0.15	nil
Kalon	1.5	Apr 3	1.5	2.2	1.5
Ldn Forfeiting	5	Apr 3	4.825	7.625	7.25
Mersey Docks	4	May 14	3.3	6	5
NatWest	11.375	May 15	11.375	17.5	17.5
Paribas French	1.2	Apr 3	1.2	1.2	1.2
Riverford Small	1.25	Apr 3	1.25	1.2	1.2
Sedgwick	8	Apr 24	8	12	12
SmithKline	4.15	Apr 15	3.8	15.4	14
TR High Income	0.8	Apr 30	0.4	0.1	0.1
Unilever	13.91	May 22	13.3	18.94	18.16

Dividends shown pence per share net except where otherwise stated. 10p capital increased by rights and/or acquisition issues. 1p Excludes special of 0.37p.

## Unilever 1991

FULL YEAR. In spite of difficult conditions in some of our major markets 1991 was a year of progress. Sales increased by 4% and net profit on ordinary activities rose by 7% over 1990, at constant rates of exchange.

Volume in our consumer businesses grew but this was largely offset by a decline in industrial volumes. In comparison with 1990, when the results benefited from exceptional gains, operating profit remained flat. Before exceptional items, however, operating profit at constant rates of exchange was £75 million above 1990. Profit before tax rose by 4% compared to the previous year as strong cash flows led to a reduction of borrowings and hence interest charges.

At the average exchange rates prevailing in each year, the increase in net profit on ordinary activities over 1990 was 4% in sterling, 5% in guilders and 2% in dollars.

RESULTS	1991	1990	Increase/ (Decrease)	Increase/ (Decrease)
	£m unaudited			Constant rates
Turnover	23,163	22,734	2%	4%
Operating profit	1,998	2,051	(3)%	—
Profit before taxation	1,792	1,782	1%	4%
Taxation	(583)	(613)		
Outside interests	(57)	(57)		
Net profit before extraordinary items	1,152	1,112	4%	7%
Extraordinary items	1	(195)		
Net profit after extraordinary items	1,153	917	26%	
Dividends on ordinary capital	(420)	(405)		
Combined earnings per share	61.62p	59.52p	4%	
per 5p of ordinary capital excluding extraordinary items				

OPERATIONS. In Europe operating profit increased by 3% at constant rates of exchange. Our consumer foods businesses increased sales and profit with strong performances from oil and dairy based foods and ice cream. Our detergents operation also made a significant contribution to the overall improvement. Progress in these businesses has been based on successful product innovation and cost reduction, and margins have strengthened. Industrial markets in foods were weak and this depressed results. Sales increased in personal products, although profit was restrained by lower duty free sales in the prestige sector and reduced margins in colour cosmetics.

In North America operating profit fell short of that of 1990. Whilst trading conditions remained difficult the performance of most of our businesses, notably our foods operations, improved in the course of the year.

## PRELIMINARY RESULTS



In detergents, investment in major product launches lifted sales and market shares but reduced profits. Our personal products business had a difficult year. In mass markets lower demand, together with the costs of restructuring, depressed results. In the prestige sector new product launches achieved significant gains in sales but not yet in profits. Our specialty chemicals business did well to hold profits at the 1990 level.

In the Rest of the World we achieved a significant increase in sales. There were particularly good results from our detergents and personal products operations most notably in Latin America and South East Asia. The reduction in margin at current rates of exchange was due to currency movements and exceptional gains in 1990.

EXTRAORDINARY ITEMS. The fourth quarter results of 1991 include an extraordinary gain of £1 million, net of tax, on withdrawal from certain business segments. This comprises an extraordinary profit of £61 million less an extraordinary charge of £60 million. The extraordinary profit relates to the disposal of the 4P Group, which represents our exit from packaging. The extraordinary charge arises on withdrawal from those agribusiness activities which do not support the Group's core businesses. This includes the reinstatement of attributable goodwill written off on purchase.

The Fourth Quarter results of 1990 included an extraordinary charge of £195 million, net of tax, relating to our Single European Market programme. Following Dutch accounting practice and developments in the UK, we have also quoted earnings per share after extraordinary items for both years.

DIVIDENDS			
	1991	1990	
PLC per 5p ordinary	-final	13.91p	13.30p
	-total	18.94p	18.16p
N.V. per FL4 ordinary	-final	FL 4.08	FL 3.83
	-total	FL 5.56	FL 5.27

Rates are equivalent in value at the rate of exchange applied in terms of the Equalisation Agreement between the companies. Should there be a change in the current rate of Advance Corporation Tax, the PLC dividend will be adjusted.

The PLC final dividend will be paid on 22 May 1992 to shareholders registered on 16 April 1992.

The N.V. final dividend will be payable as from 22 May 1992.

The Annual Review and Annual Accounts for 1991 will be published on 14 April 1992. The results for the first quarter 1992 will be announced on Friday 15 May 1992.

For copies of results statements telephone Freephone 0800 181 891 or write to: Unilever External Affairs Department, P.O. Box 68, Unilever House, London EC4P 4BQ or for Guilder version, P.O. Box 760, 3000 DK Rotterdam.







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High Inc Equity	6/125.4	128.4	136.5	+0.9%	23
Worldwide Bond	6/218.0	218.0	231.2	-0.4%	15
Capital Growth					
American Growth					

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Continued on next page

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<b>Investment Asset Mgmt Ltd SA (a)</b>				<b>Sun Life Global Management Ltd SA</b>			
13th Somerset	01-215 1000	01-215 1000	01-215 1000	Par 175 Dorset, Isle of Man	054 62444		
14th Somerset	01-215 1000	01-215 1000	01-215 1000				
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35th Somerset	01-215 1000	01-215 1000	01-215 1000				
36th Somerset	01-215 1000	01-215 1000	01-215 1000				
37th Somerset	01-215 1000	01-215 1000	01-215 1000				
38th Somerset	01-215 1000	01-215 1000	01-215 1000				
39th Somerset	01-215 1000	01-215 1000	01-215 1000				
40th Somerset	01-215 1000	01-215 1000	01-215 1000				
41st Somerset	01-215 1000	01-215 1000	01-215 1000				
42nd Somerset	01-215 1000	01-215 1000	01-215 1000				
43rd Somerset	01-215 1000	01-215 1000	01-215 1000				
44th Somerset	01-215 1000	01-215 1000	01-215 1000				
45th Somerset	01-215 1000	01-215 1000	01-215 1000				
46th Somerset	01-215 1000	01-215 1000	01-215 1000				
47th Somerset	01-215 1000	01-215 1000	01-215 1000				
48th Somerset	01-215 1000	01-215 1000	01-215 1000				
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60th Somerset	01-215 1000	01-215 1000	01-215 1000				
61st Somerset	01-215 1000	01-215 1000	01-215 1000				
62nd Somerset	01-215 1000	01-215 1000	01-215 1000				

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<b>Energy Plus Investments (SEAV) Ltd</b>					<b>Abstract Fund Mgmt (Growth) Ltd</b>				
NAV Feb 15	10.11				NAV Feb 15	37.50			
<b>Energy Value Fund (Growth) Ltd</b>					<b>Adia Investment</b>				
NAV Feb 15	50.35		td		Advanta	NAV Feb 15	10.00		
<b>Enbridge (e)</b>					Advesta	NAV Feb 15	10.00		
NAV Feb 15	10.00				Advesta	NAV Feb 15	10.00		
<b>Fidelity Intl New Mkt (Growth) Fund</b>					<b>Asia Malaysia Growth Fd (Growth) Ltd</b>				
NAV Feb 15	10.00		0.50		Alliance Capital	NAV Feb 15	10.00		
<b>Fidelity Investment (CD Ltd)</b>					Alliance Capital	NAV Feb 15	10.00		
NAV Feb 15	10.00		0.75		Alliance Capital	NAV Feb 15	10.00		
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<b>Fidelity Investment (CD Ltd)</b>					Alliance Capital	NAV Feb 15	10.00		
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<b>Fidelity Investment (CD Ltd)</b>					Alliance Capital	NAV Feb 15	10.00		
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<b>Fidelity Investment (CD Ltd)</b>					Alliance Capital	NAV Feb 15	10.00		
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NAV Feb 15	10.00		0.75		Alliance Capital	NAV Feb 15	10.00		
<b>Fidelity Investment (CD Ltd)</b>					Alliance Capital	NAV Feb 15	10.00		
NAV Feb 15	10.00		0.75		Alliance Capital	NAV Feb 15	10.00		

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	Price	Offer	Div	Yield		Price	Offer	Div	Yield
<b>General Fund Managers Ltd.</b>					<b>North Star Fund Managers Ltd. - Contd.</b>				
General Fund Mgr Ltd. 1	19.92	19.92			North Star Fd 1	11.75	11.75		
General Fund Mgr Ltd. 2	19.97	19.97			High Income Fd 1	11.75	11.75		
General Fund Mgr Ltd. 3	19.97	19.97			High Income Fd 2	11.75	11.75		
General Fund Mgr Ltd. 4	19.97	19.97			High Income Fd 3	11.75	11.75		
General Fund Mgr Ltd. 5	19.97	19.97			High Income Fd 4	11.75	11.75		
<b>General Fund Mgr Ltd. 6</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 5	11.75	11.75		
<b>General Fund Mgr Ltd. 7</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 6	11.75	11.75		
<b>General Fund Mgr Ltd. 8</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 7	11.75	11.75		
<b>General Fund Mgr Ltd. 9</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 8	11.75	11.75		
<b>General Fund Mgr Ltd. 10</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 9	11.75	11.75		
<b>General Fund Mgr Ltd. 11</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 10	11.75	11.75		
<b>General Fund Mgr Ltd. 12</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 11	11.75	11.75		
<b>General Fund Mgr Ltd. 13</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 12	11.75	11.75		
<b>General Fund Mgr Ltd. 14</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 13	11.75	11.75		
<b>General Fund Mgr Ltd. 15</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 14	11.75	11.75		
<b>General Fund Mgr Ltd. 16</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 15	11.75	11.75		
<b>General Fund Mgr Ltd. 17</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 16	11.75	11.75		
<b>General Fund Mgr Ltd. 18</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 17	11.75	11.75		
<b>General Fund Mgr Ltd. 19</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 18	11.75	11.75		
<b>General Fund Mgr Ltd. 20</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 19	11.75	11.75		
<b>General Fund Mgr Ltd. 21</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 20	11.75	11.75		
<b>General Fund Mgr Ltd. 22</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 21	11.75	11.75		
<b>General Fund Mgr Ltd. 23</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 22	11.75	11.75		
<b>General Fund Mgr Ltd. 24</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 23	11.75	11.75		
<b>General Fund Mgr Ltd. 25</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 24	11.75	11.75		
<b>General Fund Mgr Ltd. 26</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 25	11.75	11.75		
<b>General Fund Mgr Ltd. 27</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 26	11.75	11.75		
<b>General Fund Mgr Ltd. 28</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 27	11.75	11.75		
<b>General Fund Mgr Ltd. 29</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 28	11.75	11.75		
<b>General Fund Mgr Ltd. 30</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 29	11.75	11.75		
<b>General Fund Mgr Ltd. 31</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 30	11.75	11.75		
<b>General Fund Mgr Ltd. 32</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 31	11.75	11.75		
<b>General Fund Mgr Ltd. 33</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 32	11.75	11.75		
<b>General Fund Mgr Ltd. 34</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 33	11.75	11.75		
<b>General Fund Mgr Ltd. 35</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 34	11.75	11.75		
<b>General Fund Mgr Ltd. 36</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 35	11.75	11.75		
<b>General Fund Mgr Ltd. 37</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 36	11.75	11.75		
<b>General Fund Mgr Ltd. 38</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 37	11.75	11.75		
<b>General Fund Mgr Ltd. 39</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 38	11.75	11.75		
<b>General Fund Mgr Ltd. 40</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 39	11.75	11.75		
<b>General Fund Mgr Ltd. 41</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 40	11.75	11.75		
<b>General Fund Mgr Ltd. 42</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 41	11.75	11.75		
<b>General Fund Mgr Ltd. 43</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 42	11.75	11.75		
<b>General Fund Mgr Ltd. 44</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 43	11.75	11.75		
<b>General Fund Mgr Ltd. 45</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 44	11.75	11.75		
<b>General Fund Mgr Ltd. 46</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 45	11.75	11.75		
<b>General Fund Mgr Ltd. 47</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 46	11.75	11.75		
<b>General Fund Mgr Ltd. 48</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 47	11.75	11.75		
<b>General Fund Mgr Ltd. 49</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 48	11.75	11.75		
<b>General Fund Mgr Ltd. 50</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 49	11.75	11.75		
<b>General Fund Mgr Ltd. 51</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 50	11.75	11.75		
<b>General Fund Mgr Ltd. 52</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 51	11.75	11.75		
<b>General Fund Mgr Ltd. 53</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 52	11.75	11.75		
<b>General Fund Mgr Ltd. 54</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 53	11.75	11.75		
<b>General Fund Mgr Ltd. 55</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 54	11.75	11.75		
<b>General Fund Mgr Ltd. 56</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 55	11.75	11.75		
<b>General Fund Mgr Ltd. 57</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 56	11.75	11.75		
<b>General Fund Mgr Ltd. 58</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 57	11.75	11.75		
<b>General Fund Mgr Ltd. 59</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 58	11.75	11.75		
<b>General Fund Mgr Ltd. 60</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 59	11.75	11.75		
<b>General Fund Mgr Ltd. 61</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 60	11.75	11.75		
<b>General Fund Mgr Ltd. 62</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 61	11.75	11.75		
<b>General Fund Mgr Ltd. 63</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 62	11.75	11.75		
<b>General Fund Mgr Ltd. 64</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 63	11.75	11.75		
<b>General Fund Mgr Ltd. 65</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 64	11.75	11.75		
<b>General Fund Mgr Ltd. 66</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 65	11.75	11.75		
<b>General Fund Mgr Ltd. 67</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 66	11.75	11.75		
<b>General Fund Mgr Ltd. 68</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 67	11.75	11.75		
<b>General Fund Mgr Ltd. 69</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 68	11.75	11.75		
<b>General Fund Mgr Ltd. 70</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 69	11.75	11.75		
<b>General Fund Mgr Ltd. 71</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 70	11.75	11.75		
<b>General Fund Mgr Ltd. 72</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 71	11.75	11.75		
<b>General Fund Mgr Ltd. 73</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 72	11.75	11.75		
<b>General Fund Mgr Ltd. 74</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 73	11.75	11.75		
<b>General Fund Mgr Ltd. 75</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 74	11.75	11.75		
<b>General Fund Mgr Ltd. 76</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 75	11.75	11.75		
<b>General Fund Mgr Ltd. 77</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 76	11.75	11.75		
<b>General Fund Mgr Ltd. 78</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 77	11.75	11.75		
<b>General Fund Mgr Ltd. 79</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 78	11.75	11.75		
<b>General Fund Mgr Ltd. 80</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 79	11.75	11.75		
<b>General Fund Mgr Ltd. 81</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 80	11.75	11.75		
<b>General Fund Mgr Ltd. 82</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 81	11.75	11.75		
<b>General Fund Mgr Ltd. 83</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 82	11.75	11.75		
<b>General Fund Mgr Ltd. 84</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 83	11.75	11.75		
<b>General Fund Mgr Ltd. 85</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 84	11.75	11.75		
<b>General Fund Mgr Ltd. 86</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 85	11.75	11.75		
<b>General Fund Mgr Ltd. 87</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 86	11.75	11.75		
<b>General Fund Mgr Ltd. 88</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 87	11.75	11.75		
<b>General Fund Mgr Ltd. 89</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 88	11.75	11.75		
<b>General Fund Mgr Ltd. 90</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 89	11.75	11.75		
<b>General Fund Mgr Ltd. 91</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 90	11.75	11.75		
<b>General Fund Mgr Ltd. 92</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 91	11.75	11.75		
<b>General Fund Mgr Ltd. 93</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 92	11.75	11.75		
<b>General Fund Mgr Ltd. 94</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 93	11.75	11.75		
<b>General Fund Mgr Ltd. 95</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 94	11.75	11.75		
<b>General Fund Mgr Ltd. 96</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 95	11.75	11.75		
<b>General Fund Mgr Ltd. 97</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 96	11.75	11.75		
<b>General Fund Mgr Ltd. 98</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 97	11.75	11.75		
<b>General Fund Mgr Ltd. 99</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 98	11.75	11.75		
<b>General Fund Mgr Ltd. 100</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 99	11.75	11.75		
<b>General Fund Mgr Ltd. 101</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 100	11.75	11.75		
<b>General Fund Mgr Ltd. 102</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 101	11.75	11.75		
<b>General Fund Mgr Ltd. 103</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 102	11.75	11.75		
<b>General Fund Mgr Ltd. 104</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 103	11.75	11.75		
<b>General Fund Mgr Ltd. 105</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 104	11.75	11.75		
<b>General Fund Mgr Ltd. 106</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 105	11.75	11.75		
<b>General Fund Mgr Ltd. 107</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 106	11.75	11.75		
<b>General Fund Mgr Ltd. 108</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 107	11.75	11.75		
<b>General Fund Mgr Ltd. 109</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 108	11.75	11.75		
<b>General Fund Mgr Ltd. 110</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 109	11.75	11.75		
<b>General Fund Mgr Ltd. 111</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 110	11.75	11.75		
<b>General Fund Mgr Ltd. 112</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 111	11.75	11.75		
<b>General Fund Mgr Ltd. 113</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 112	11.75	11.75		
<b>General Fund Mgr Ltd. 114</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 113	11.75	11.75		
<b>General Fund Mgr Ltd. 115</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 114	11.75	11.75		
<b>General Fund Mgr Ltd. 116</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 115	11.75	11.75		
<b>General Fund Mgr Ltd. 117</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 116	11.75	11.75		
<b>General Fund Mgr Ltd. 118</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 117	11.75	11.75		
<b>General Fund Mgr Ltd. 119</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 118	11.75	11.75		
<b>General Fund Mgr Ltd. 120</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 119	11.75	11.75		
<b>General Fund Mgr Ltd. 121</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 120	11.75	11.75		
<b>General Fund Mgr Ltd. 122</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 121	11.75	11.75		
<b>General Fund Mgr Ltd. 123</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 122	11.75	11.75		
<b>General Fund Mgr Ltd. 124</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 123	11.75	11.75		
<b>General Fund Mgr Ltd. 125</b>	<b>19.97</b>	<b>19.97</b>			High Income Fd 124	11.75	11.75		
<b>General Fund Mgr Ltd. 126</b>	<b>19.97&lt;/</b>								

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**MANAGED FUNDS NOTES**  
Prices are in Pence unless otherwise indicated and shown  
depreciated 5 with no uplift for U.S. dollars. Various  
for all quoted securities. Prices of certain  
insurance include plant subject to certain limits as  
in Distribution free of UK taxes. A periodic provision  
in certain plans a certain amount of the fund's assets  
in Luxembourg as a DEUTS Underwriting for Collective  
Investment in Transatlantic Securities. A offered price  
includes all charges and expenses. Similar  
Previous day's price. In Germany group. A September  
Third before Jersey law. A no-load plan. A only available  
Charitable contributions. A certain amount of the fund's  
rates of NAV increased. Not to dividend  
of Funds not SIC registered. The regulatory authorities  
in the United Kingdom. A certain amount of the fund's  
Guarantee; instead, Central Bank of Ireland, like  
also: Financial Supervisory Commission, Jersey  
and the Bank of England, Luxembourg Institute  
Monetary Lawgroup.

## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Fearful consumers hurt dollar

A QUIET day for the dollar was transformed by a small reduction in the Conference Board US consumer confidence index at 46.3 in February, the lowest level since the survey started in 1967.

The confidence numbers pushed the dollar down sharply from DM 1.6480 to DM 1.6350 in what one observer described as "very aggressive selling" - though this was mostly interbank dealing, he said, not corporate interest.

The drop in the confidence index called into question belief in an imminent US economic recovery based on strong recent retail sales figures and monetary data, said Gerard Lyons of DKB International. Lyons also noted that Alan Greenspan, the chairman of the Federal Reserve, told a US senate committee that the drop in the index was "quite disturbing" and that there is room for the Fed to move [to ease interest rates] if we have to move further.

In spite of the burst of dollar selling, the market was heartened, said Mr Christian Duns of Chemical Bank, by very good resistance around the DM 1.6375 level. The dollar ended London trading at DM 1.6390, after a DM 1.6460 London start and Monday's close of DM 1.6510. It rallied to end at DM 1.6575 in New York.

Against the yen, the dollar had performed more strongly, helped by an absence of the half-expected Japanese government intervention and by political pressure for lower yen interest rates. Yesterday the dollar closed in Tokyo at Y 129.32, and moved in a narrow range in European trading, reaching a high of Y 129.91 before ending at Y 129.50, slightly above Monday's close of Y 129.15. Against sterling the US unit closed at \$1.7610, down from an opening of \$1.7525.

Among European currencies, there was an easing of Spanish interest rates as the Bank of Spain's intervention rate fell from 12.65 per cent to 12.40 per cent. The move was primarily a result of strains within the EMS, not domestic concerns, said Carlos Solchaga, Spain's economy minister. "The peseta has been in the higher hand of the ERM, and we thought we

could achieve a more balanced situation with a small reduction in the rate," he added.

His comments were a clear reference to the way in which the peseta's strength has kept sterling trapped against its lower ERM limit. Yesterday's move on peseta interest rates produced no corresponding easing from the UK authorities, but the pound stayed close to its peseta floor. There was little activity. "The pound was really completely sidelined," commented one trader.

Sterling opened at DM 2.8802, slightly weaker than its previous close of DM 2.8855. During the morning the pound dipped to DM 2.8791, climbing back to DM 2.8803 at 3pm. The dollar weakness thereafter, which pushed up the D-Mark, left sterling a little easier and it closed at DM 2.8787.

In spite of very good trade figures, the French franc closed slightly lower.

## EMS EUROPEAN CURRENCY UNIT RATES

	Ein Central Basis	Currency Amounts Anglo-Sax Feb 25	% Change From 1970	% Spread vs. Weighted Average	Divergence Indicator
Search Points	173.611	128.337	-3.9%	6.12	68
Belgium Franc	2.492	42.967	-0.79	2.73	40
Deutch Mark	2.31043	2.30126	-0.64	2.57	33
Fr. 1000s	1.93636	1.936	-0.50	4.42	34
Italian Lira	153.94	1535.45	-0.17	1.0	10
Irish Punt	0.764217	0.76449	-0.08	1.98	5
French Franc	6.95679	6.95	0.05	1.03	33
Deutch Mark	7.84195	7.92738	1.09	0.81	-38
Starling	0.696904	0.710251	1.91	0.00	-46

Unit central rates set by the European Commission. Currencies are in descending order of value. Percentage changes are for the day's movement. The actual rate is shown in the second column. The percentage change is calculated by dividing the day's movement by the previous day's rate.

## POUND SPOT - FORWARD AGAINST THE POUND

	Spot	1m	3m	6m	12m
US	1.7525	1.7525	1.7525	1.7525	1.7525
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
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Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
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Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
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UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
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Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
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Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1.936	1.936	1.936
Yen	129.50	129.50	129.50	129.50	129.50
DM	2.8802	2.8802	2.8802	2.8802	2.8802
France	163.363	163.363	163.363	163.363	163.363
Italy	1,366.53	1,366.53	1,366.53	1,366.53	1,366.53
Netherlands	203.636	203.636	203.636	203.636	203.636
Spain	166.363	166.363	166.363	166.363	166.363
UK	1.936	1.936	1		

## CANADA

[illegible]

ICES						1992	
	Feb	Feb	Feb	Feb		HIGH	LOW
	25	26	27	28			
AUSTRALIA AN (12/20) AU (11/18)	1639.8	1627.0	1621.5	1623.0		1675.40 (23/12)	1599.90 (2/12)
AUSTRIA AT (12/20)	717.2	712.8	709.5	708.9		717.23 (23/12)	660.30 (2/12)
BELGIUM BE (12/20)	457.37	458.57	457.10	457.58		459.97 (24/12)	475.25 (2/12)
BELGIUM BE (12/19)	1094.01	1099.43	1093.69	1097.58		1099.43 (24/12)	1071.94 (2/12)
BELGIUM BE (12/19)	1136.94	1136.89	1132.54	1137.58		1099.43 (24/12)	1097.23 (2/12)
CANADA CA (12/18)	355.06	352.10	352.33	351.69		365.29 (15/12)	339.06 (2/12)
FINLAND FI (12/19)	924.31	925.9	928.0	917.7		935.90 (24/12)	779.00 (2/12)
FRANCE CA Central (12/18)	594.33	593.36	510.51	512.33		529.51 (25/12)	475.53 (2/12)
FRANCE CA (12/15/16)	1903.33	1979.32	1962.37	1991.25		1972.52 (24/12)	1749.91 (2/12)
GERMANY FAI (12/18)	702.96	709.10	706.06	695.05		701.98 (24/12)	643.26 (2/12)
GERMANY CA (12/18)	1898.00	1899.10	1973.1	1964.7		1899.10 (24/12)	1813.80 (2/12)
GERMANY CA (12/18)	1722.30	1729.18	1717.63	1705.18		1729.18 (24/12)	1576.73 (2/12)
HONG KONG Hong Kong Strait (12/17)	4768.28	4715.62	4736.47	4716.00		4772.32 (14/12)	4301.78 (2/12)
						1868.57 (17/12)	

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Change	Stocks	Closing	Change
on day	Traded	Prices	on day
+ 10	1,801	\$27	+ 4
+ 10	Dainippon Ind. ....	631	- 2
+ 10	Mitsubishi Heavy	797	- 3
+ 3	Nissan Chem. ....	1,350	-20
+ 1	Mitsubishi Trust	347	- 1
- 10	Nippon Steel ....		

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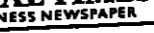
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**4:00 pm prices February 25**

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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Continued on next page





## KUWAIT

Wednesday February 26 1992

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## SECTION III

On the anniversary of Kuwait's liberation, "Kuwait for the Kuwaitis" sums up what many Kuwaitis hope will be the most apparent change in the emirate's post-war character. But a number of Kuwaitis are less sure of the benefits of removing at a stroke a core component of the country's educated Arab middle class. Mark Nicholson investigates

## Foundations of the future

A PAIR of bumper stickers on a brand new Chevrolet Caprice outside a Kuwait hotel sums up much of the sentiment in the emirate a year after liberation. One reads: "Kuwait is Free, thank you America!" The other, beneath it, proclaims: "Kuwait for the Kuwaitis".

Not only do the slogans illuminate Kuwait's determination to present a spirit of post-war assurance, the medium itself says much about how Kuwaitis have striven to package and contain the memories of their ordeal.

With Kuwait City now spruced up and tidied, the skies cleared of depressing clouds from the oil fires and the rusting detritus of war visible only on excursions out of the city, Kuwait has sought to render memories of the war in unifying, patriotic colours.

Bright, triumphalist murals adorn city walls and a new memorial of a shattered Iraqi tank, surrounded by the flags of members of the coalition of countries which evicted the Iraqis, sits beside the Information Ministry.

Early tensions between those 200,000 Kuwaitis who endured occupation and the 400,000 who fled have been dissolved in

part by a campaign to unite all Kuwaitis around the yellow flag, fluttering across the city, reminding them of the 1,053 Kuwaitis who have yet to return from Iraq.

While the past is being taken care of, the foundations of Kuwait's post-war future are also becoming increasingly clear. The slogan "Kuwait for the Kuwaitis" serves as well as any to sum up what the government, and the greater part of Kuwaitis themselves, hope will be the most apparent change in the emirate's post-war character.

From the moment of Kuwait's liberation, the government declared its intention that Kuwaitis, previously a 98 per cent minority in the emirate's pre-war population of 3.2m, should enjoy a majority in their own country.

Today, thanks essentially to the banishment of up to 400,000 Palestinians and Jordanians - "non-preferred nationalities" is the bureaucratic euphemism - and a determined policy of having no non-Kuwaiti nationality comprise more than 10 per cent of the total population, this intention looks likely to stick.

The policy is not without its

A year after liberation, Kuwait City is spruced up and tidied. Kuwaitis are determined to present a spirit of post-war assurance

costs or its critics. Not only has it shorn Kuwait of the best of its technical and managerial expatriate workers, it has also deprived the emirate of nearly 100,000 families who made their home in Kuwait, and in turn made a living for a large body of Kuwaiti merchants. But many Kuwaitis, who have always been suspicious of the Palestinians' political ambitions in the emirate, seem content to pay this price.

"I don't see it as a social cost - more a security gain," says the Kuwaiti manager of an engineering company who has lost all but a handful of his best trained staff.

But a number of Kuwaitis are less sure of the benefits of removing, at a stroke, a core component of the emirate's educated, Arab middle class and replacing it largely with bachelor workers. "The place of expatriates in this country should be more than just working and sleeping," says a Kuwaiti banker.

Moreover, the resulting shortage of middle-management skills in the emirate implies the need for Kuwaitis to fill jobs they have histori-

cally shunned and, for all the jolt caused by the war, show no signs yet of embracing.

Nevertheless, Kuwait's ambition to curb its population is one of several the government struggled to achieve before the Iraqi invasion, but which the war suddenly put within reach. Another is the job of clearing the country's banks of the billions of dinars of bad debt which has shackled them since the collapse in 1982 of the rashly speculative Souq al Manakh kurb stock market.

In the post-war economic hiatus, the government has seized the chance to propose a massive buy-out of the debt in return for government bonds.

The government also looks set to wash its hands of pre-war subsidies for non-oil manufacturing industries in the emirate - a trendy and expensive enterprise undertaken by all Gulf states throughout the 1980s in the name of economic diversification, but one which in Kuwait was sponsored with mixed government feeling and met with indifferent success.

As a mark of the post-war shift, the Industrial Bank of Kuwait has stopped granting

concessionary lending - the very reason it was established. Manufacturing in Kuwait has lain moribund since liberation and appears about to die.

Kuwait's economy will therefore - at least for the next few years - shrink with its population and rely more obviously on its oil revenues alone. These, the oil fires having been quenched with a speed matched by the industry's recovery in output, should be near pre-war levels by the end of 1992.

"In the final analysis," says a senior official with National Bank of Kuwait by way of an economic précis, "this is a country which can pump 2m barrels of oil a day. We can rebuild our oil facilities and we know how much that will cost."

However, the loss of much of Kuwait's pre-war investment income, with as much as \$30bn of its 1990 portfolio of about \$65bn in overseas holdings having been liquidated to pay off war-related costs, means the emirate will have to watch its domestic expenditure and perhaps borrow more than the \$5.5bn syndicated international

loan signed late last year.

The spectre of rising costs and falling revenues alarms some economists. "The most important thing now is to stop driving the country towards a permanent deficit, both internal and external," warns Mr Jassem al-Saddoun, a prominent Kuwaiti economist who declares pessimism over the government's attempts to take full control of the economy.

But the government hopes that fewer expatriates will mean less spending on public services. Also, the total reconstruction bill, which optimistic foreign contractors put at \$100bn as the war ended, looks certain to settle at a far more modest \$20bn. About half of this will be spent on repairing the oil industry and the greatest part of the remainder will go towards putting Kuwait's armed forces back on their feet.

Rebuilding apart, the government's economic priorities will otherwise revolve around spreading what it can afford of Kuwait's oil income as widely and judiciously as possible - a particular priority in this election year, but always at the

root of most government thinking in the emirate.

"Economic policy here is not so much about creating the right circumstances for production, more getting the distribution right," remarks a local economist.

Dividing up the pie has always been the central feature of Kuwaiti politics and the war has not changed this. In accomplishing this task, the government has been careful recently to consult closely with the National Council, the interim assembly reconvened after liberation by Sheikh Jaber al-Sabah, the Emir, as a stop-gap consultative body to tide the country over until the October elections to the full National Assembly.

The Emir suspended the National Assembly in 1986 in the face of its strident opposition to some of his appointed ministers. He created the Council early in 1990 to head off opposition calls for the Assembly's restitution.

The Council, decreed by opposition groups as unconstitutional in the absence of the full Assembly, is widely seen, not least by some of its own members, as the government's training school for loyalist candidates in the next election.

Its 75 members, half of whom are government appointees, will certainly claim credit for prodding the government into the popular decision to raise salaries in the civil service, which employs the vast majority of Kuwaitis by 25 per cent. Some 42 National Councilors said this month that they would contest the October poll.

At least as many opposition candidates will stand, representing the familiar and divergent strands of leftist, liberal and Islamic thinking in Kuwait, united at least in demanding that the new parliament should exercise a limit on the exercise of the al-Sabah family's ruling power - a familiar rallying point which long predates the war.

It is too soon properly to assess the likely strength of this opposition challenge at elections in eight months' time, for while stern criticism of the government's indecision and lack of managerial talent is widespread among Kuwaitis, so, too, is the popularity of

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Editorial production: Phil Sanders

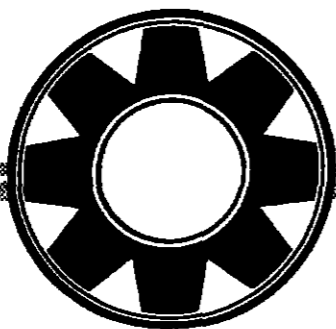
much of what the government has been seen to achieve.

By signing military co-operation pacts with the US and UK, the government has made Kuwaitis feel more secure than they have done for years. Oil revenues are reviving apace and the government has wasted no time in putting a little of this money into most pockets, both through pay rises and by writing off outstanding consumer loans.

The post-war arrival of 100,000 new cars in the emirate and countless thousands of brown and white goods testifies to how much Kuwaitis have enjoyed their re-stocking. Indeed, the overriding Kuwaiti concern these days appears to be restoring private and family life. "Everyone is only concerned with themselves," says Mr Jassem Qabazard, a National Council member. "Everyone is preoccupied."

If the result is to create a strong and pervasive feeling of introspection and insularity in Kuwait, few Kuwaitis seem worried by that. "The feeling is, Allah gave us oil and we will enjoy that in peace," says one western diplomat. "It is a dream of being outside the world."

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## KUWAIT 2

## ■ TRADE AND INDUSTRY

## Shopping spree curtailed

STRIP a country of its valuables and the chances are it will go on a shopping spree at the earliest opportunity to restock.

This is what has happened in Kuwait, but the spree has been less than frenetic. Several factors have prevented the spending boom that western exporters had hoped for and the government's policy of trying to make Kuwait truly Kuwaiti, as it sees it, has reduced the population.

About 400,000 Palestinians, many of whom earned relatively high wages in professional and technical positions, are no longer there. Kuwait's overall market is barely two-thirds of its pre-war size.

The Kuwaitis and expatriates who have returned since the war have been less inclined, and less able, to spend than before, mainly because of their reduced means and reduced creditworthiness.

Individual country's exports to Kuwait are either little changed from pre-war levels or they are dramatically lower.

US companies have maintained or increased their sales to Kuwait by taking a bigger slice of a smaller cake. They have lifted sales largely at the expense of Japanese exporters and, to a lesser extent, the Germans. US sales have been helped by the Kuwaiti "thank you" factor since the war. The government has favoured goods from those countries that took part in the allied war effort against Iraq, in particular the US.

Certain items have enjoyed a one-off replacement surge, but the rest of the market is flat. Where sales have boomed, the boom has been shorter and less intense than exporters had hoped. An immediate post-war jump in sales of cars, electrical goods and food is levelling off.

Aside from spending still to come on reconstruction, the boom, such as it was, is petering out.

Restocking in the cars sector was underway within weeks of the Iraqi departure last February. More than half the country's 560,000 cars, trucks and buses were stolen or destroyed. Government ministries, shops and offices were virtually stripped. The Iraqis left with cars, computers, industrial machinery, food and an array of spare parts.

American exports, dominated by car and truck sales, stood at \$748m up to September last year and could be close to \$1bn for the whole year, according to US officials in Kuwait. This compares with sales of about \$800m in 1989.

By contrast, Japanese exports to Kuwait, mainly cars and electrical goods, were only a fraction of 1989 sales, at \$190m by October last year. Sales in 1989 were around \$670m. Japan, whose important trading partners in the Gulf are Saudi Arabia and the United Arab Emirates, has taken a much lower profile since the war.

German sales, consisting mainly of cars, machinery and electrical goods, were just over \$30m up to October compared with about \$400m in 1989.

British sales to Kuwait, dominated by



The post-war increase in sales of food, electrical goods and cars is levelling off

machinery and food, were \$180m for the whole of last year, about 80 per cent of 1989 exports. The main exporting countries have arranged with export credit guarantee packages, including \$2bn by the US Ex-im bank (confining to public sector projects), \$700m by the UK authorities, \$1bn by the Japanese and \$550m by France.

Kuwait's roads, which were mercifully quiet for a brief period after the war, are again crisscrossed with foreign cars.

General Motors, Ford and Chrysler of the US are, predictably, selling more strongly than the big Japanese operators, Nissan and Toyota. US officials say this is also because American companies were quicker to get started on spare parts and financing than their rivals.

In addition to US and Japanese models that still dominate the roads, Land Rovers now occupy a tiny niche – the British manufacturer has sold about 550 since the war ended.

The Al Mulla group, one of Kuwait's big family trading companies, imports a vast range of goods, including vehicles from Chrysler, Mitsubishi and John Deere and computers, office equipment, and white goods from IBM, Zenith, Zanussi, General Electric, Minolta, Groupe Bull and Sharpe.

The group's office equipment section says it has been selling between 40 and 60 machines a month over the past year; sales worth about \$4m. But demand is slowing across the board. "Sales peaked by about November," says Mr Arassalam Narenthiran, Al Mulla's deputy managing director. "The market has not exactly dried up but it is levelling off."

Showrooms and warehouses are bulging. Agents and their supply companies abroad had banked on a longer boom and many traders have overstocked as a result.

"There's nothing we can do except monitor our stocks very carefully to try to make sure we aren't left with big stocks

on our hands and a dead market," says the sales manager of one Kuwaiti trading company.

Al-Sayer, Toyota's agent in Kuwait, lost 1,500 new cars and 850 used cars during the occupation. It was five months before Toyota was shipping enough cars to meet demand immediately after the war.

Since then, Toyota has shipped in 9,145 cars, but sales have tailed off and it has sold only 5,800. Annual sales before the war were around 12,000. Toyota says it is now looking to consolidate sales at between 9,000 and 10,000 a year.

While the big family traders have been able to gain credit, restock and sell, conditions for the country's thousands of small and medium-sized businesses, most of them already in debt, have been extremely difficult. Without the backing of big exporting companies, many have been unable to get started again and face collapse in the months ahead.

"The difficulty for smaller traders is that they can't get credit from the banks whereas the larger businesses can," says Mr Hilal Al Mutairi, director-general of the Kuwait Chamber of Commerce and Industry, representing the country's 18,000 businesses. "We are hoping the government goes ahead with a proposed programme to buy up all the debts," says Mr Al Mutairi.

The debts would then be rescheduled over 20 years at low or zero interest rates. This would enable businesses to negotiate fresh credit with the banks and restart.

The government is itself burdened with the costs of war and reconstruction although it may have to come up with some sort of commercial write-off. Any such package may come too late for the hundreds of businesses that have missed the shopping spree and are still struggling to reopen.

Sheila Jones

## Mark Nicholson examines politics in the emirate

## Hive of electioneering

ELECTIONS for a new Kuwaiti National Assembly do not take place for another eight months, but you would scarcely know it. The emirate is already a hive of electioneering.

Opposition groups, seeking to revive the momentum they enjoyed immediately after Kuwait's liberation, hold regular combined meetings attracting more than 1,000 people.

More than 40 members of the National Council, the interim consultative assembly reconvened by the Emir last year, have declared their candidature and some have already enjoyed lustrous public exchanges with opposition figures.

Diwaniyas, Kuwait's unique home-based discussion groups, are more numerous and politicised than ever. And the government scarcely appears to twitch without thinking first of the electoral consequences.

In part, the buzz surrounding October's poll manifests political ambitions pent up since the Emir dissolved the last full National Assembly in 1986 – and with it selected paragraphs of the country's 1961 constitution – citing security reasons for suspending a forum which was offering increasingly bitter and trouble-

some opposition to the government's policies and some of its ministers – none of whom the Assembly had powers to appoint.

The excitement also reflects a broader will, most vocally put by opposition groups, to get to grips with the governance of the new post-war Kuwait. But as to whether, finally, the war has substantially altered the real issues of Kuwaiti politics, or the political alignment of its limited electorate, opinions are mixed, and firm judgments are probably premature.

One certain change since Kuwait's last poll will be the size of the electorate, which is limited to Kuwaiti males over 21 who can trace family lineage back to Kuwait City in the 1800s. Due largely to the youthful profile of Kuwait's population, by October more than 90,000 Kuwaitis will be on the electoral roll.

This is a rise of 30,000 on the number eligible to vote in the June 1990 election for the interim, and purely consultative, National Council – of which half of its 75 members

were government appointees.

Women and "second degree Kuwaitis" – Kuwaiti citizens not so tightly defined by reference to their 1920s forbears – will not vote in the 1992 poll, although Sheikh Jaber al Sabah, the Emir, has promised to "study" their eventual enfranchisement and the next assembly is sure to have this issue near the top of its agenda.

Campaigning proper cannot start formally until three weeks before the election date, which remains to be set. From that time, candidates will be allowed to raise tents outside their homes to entertain election gatherings – not the least attractive feature of which are some candidates' efforts to compete in providing the most lavish cuisine.

The social onus laid on Kuwaiti election meetings is characteristic of the emirate's brand of "democracy" which traditionally places heavy stress on the achievement of consensus – very often through the institution of the Diwaniya, itself a fundamentally social gathering. Diwanis, hosted by and open to members of the ruling family and ordinary Kuwaitis alike, are a highly efficient grapevine in what is essentially a cosy, if clanish, city state.

"We grind and grind, and eventually reach consensus," says Mr Jassem Qabazard, a member of the National Council, both of its own decision-making process and that of Kuwait overall.

Mr Qabazard and other members of the National Council, which is condemned by the main opposition groups as being unconstitutional, claim this consensual system is the defining point of Kuwaiti politics – of which the written constitution is merely a reflection. "There is an unwritten constitution that balance should always be maintained among the main families here," says Mr Ibrahim Shehabel, another National Council member.

The opposition, particularly the Democratic Forum, a grouping of largely western-educated leftists and liberals, disputes this strongly, claiming Kuwait's political structure should flow from the constitution, and that any political

decision made since parts of it were suspended in 1986 is illegitimate. "Any government without constitutional control risks becoming a corrupt government," says Mr Mohammed al-Ghadiri, a Democratic Forum spokesman.

For the opposition, both secular and Islamic, the National Assembly is the means by which Kuwaitis can keep the rule of the al-Sabah family accountable. Although the 50 elected members of the assembly cannot pick government ministers, 16 of whom also sit on the assembly, it can constitutionally demand their appearance to justify policies and it has a limited veto on government legislation.

The strength of the opposition's challenge in the October elections is difficult to assess – although it is already clear

The opposition groups will command considerable domestic news coverage, not least that the government has now that the government has formally lifted censorship in local papers, and there will be much western interest during the campaign. But many observers suggest that voters will return essentially the same interest groups which have dominated Kuwait's representative assemblies in the past – a mix of merchants, Islamic groups, leftists, bedouin and western-style liberals – and that the conservatism of Kuwait's voters should not be underestimated. "In practice," says one diplomat, "it will be the same parish pump politics it has been since the first national assembly in the 1960s."

Moreover, despite the prominence of opposition spokesmen immediately after liberation, many observers suggest that the government has gone a long way towards quieting the vehemence of post-liberation demands for democracy by realising its promise of holding elections, by not tampering with constituency boundaries, by a trick opposition groups had feared – and, perhaps most important, by offering most Kuwaitis a good deal of pre-election largesse.

The government has not only raised the salaries of civil servants – up to 90 per cent of whom are Kuwaitis – by 25 per cent, but it has also written off all Kuwaitis' pre-war housing and consumer loan debts.

Moreover, some suggest that the preoccupation with achieving consensus in Kuwait offers the country a political self-righting quality. "There are people rocking the boat," says a western diplomat. "But when the deck gets too near the water, people tend to rush over to the other side to balance it."

However, the real test of this self-righting will come immediately before the elections. If opposition groups find themselves able to command large and raucous gatherings at their campaign tents, some diplomats fear the government could lose its nerve and call in the security forces – much as it did during pre-democracy demonstrations in Spring 1990, the last time Kuwait's political season was in full swing.



Sheikh Jaber al Sabah, the Emir, reconvened Council

that it will fight energetically for seats. The Democratic Forum, which declared itself a political party late last year in defiance of an unwritten prohibition on such, says it will field 10-15 candidates and expects to win at least five or more seats.

Of the various Islamic groups, the Sunni fundamentalist Islamic Constitutional Movement, which wants to see Sharia law enacted in Kuwait, says it will field 15, while the Islamic Alliance, another Sunni group, will field a further 10. The main Shia group, the National Islamic Coalition, says only that it will field "many" candidates. Shia Muslims comprise some fifth of Kuwait's population.

**Q1** Name the first new oil company for 15 years.

**Q2** Which oil company introduced the first unleaded petrol in Europe?

**Q3** Name the company that's one of the fastest growing suppliers of jet fuel.

**Q4** Who launched one of the first fully automated fuel cards for European road hauliers?

**Q5** Which oil company has 6,000 petrol stations throughout Europe?

**Q6** One oil company has gone from sales of 0 to 330,000 barrels per day in 8 years. Which one?

**Q7** Which oil company continued trading in 1991 despite having its oil supplies cut off?



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## KUWAIT 4

Sheila Jones takes a look at repairs to the electricity and water networks

## Many contracts still to be awarded

ONLY camels are comfortable without air conditioning in Kuwait. Temperatures are manageable at this time of year but in the summer, the country bakes. The scorching heat of August will be the greatest test for the emirate's patched-up power and water network.

Work so far has barely scratched the surface. Millions of dollars worth of contracts are still to be awarded to make good the severe damage inflicted during the seven-month Iraqi occupation. Repairs to the country's power stations have restored about a third of their pre-war capacity of 7,500MW. That is enough to meet the current load, but it is still short of the likely surge in demand over the next six months.

"We have set a target to produce 5,000MW by August '94," says Mr Ahmed al-Adasy, minister of electricity and water. "By then we estimate the peak load will reach 3,300MW."

Work on the power stations was especially urgent because they also provided virtually all the country's domestic and industrial fresh water at combined desalination plants.

The government says that 98 per cent of the country has been linked to power and water supplies, although some farming areas in the north are still without plumbed water. It is likely to be two to three years before the network is fully up and running.

All six of Kuwait's power



A Kuwait City power station set ablaze by Iraqi forces

stations were damaged during the war. Early estimates put the full cost of the repair work at about \$1bn. Now the government says it will have to spend \$5bn on the network over the next five years, including nearly \$2bn for a new plant at Subiya in north-east Kuwait.

Mitsubishi of Japan won the Subiya contract before the war but the project was suspended after the invasion. The company will supply the boilers and turbines, worth about

\$1bn. It is now negotiating with the government which is trying to hold the company to prices agreed under the 1989 contract. A group of Turkish companies is building the plant's infrastructure. Work is due to start in 1994.

Much of the post-war work has been to carry out urgent, but temporary, repairs, and only a handful of the biggest contracts has been awarded. Scores of western companies are battling for the spoils.

Bristol Babcock, the UK engineering company, has just completed an \$8m contract to repair the control room at Doha West power station, built in 1983. The new control room was scheduled to be switched on today for the first time since the war, operating initially at a tiny proportion of its capacity.

The UK company is working on a similar \$10.8m contract to repair the control room and other items at the adjoining plant at Doha East, which was built in 1977. Boilers were also badly damaged and most of the fuel tanks were destroyed. Deutsche Babcock, which supplied the original boilers at the two plants, won the order for new boilers. The government has reopened bidding for a \$20-\$25m order for the new fuel tanks after rejecting initial bids last year. FC Babcock, the group's French subsidiary, appears to be a likely contender.

One of the biggest single contracts being negotiated is for the replacement of desalination units at Shuwaikh. Estimates for the work range from \$30m to \$40m. The government says that damage to the power plant, built in 1984, was so severe that it is not worth

repairing. But the desalination plant was only a few years old. The pre-war capacity of each of Shuwaikh's three desalination units was 6m gallons of water a day, about a sixth of the country's daily consumption.

Westinghouse of the US is chasing the Shuwaikh contract along with Hitachi and Mitsubishi of Japan, Hyundai of South Korea, Alstom of France and a handful of smaller western companies. Westinghouse says it will enter a joint venture with a civil engineering company, possibly Blount of the US, if it wins the contract.

Temporary repairs have been carried out at two of the other power stations, but the Shuwaikh North plant is still out of action. Shuwaikh South and the al-Zour plant, Kuwait's newest power station, built in 1988, suffered little damage. The two plants are supplying all Kuwait's current capacity. Transmission cables to al-Zour have been patched up, along with about 10,000km of cable throughout the country.

Blount carried out temporary repairs to the cable network jointly with subcontractors, local companies and government workers. Some of the subcontracted work has



The Doha West control room before Bristol Babcock repairs

gone to Balfour Beatty, on overhead repairs, and BICC on ground cables.

The repairs have enabled the country to tick over, but the heavy investment needed to bring the system up to full power has barely started.

The cable network was so extensively damaged that it will cost about \$300m to put right.

Blount has just started work on a \$15m contract to replace high voltage overhead cables.

carried out much of the temporary repair work. The full tally of work is likely to reach \$200m.

Power supplies were more severely disrupted than the flow of water. Early repairs to the distribution system quickly secured enough water to satisfy demand from the returning population.

Reservoirs, which suffered little damage, are back to pre-war storage levels of about 2bn gallons.

Current demand of 90m gallons a day will rise to about 130m by the summer. The two Doha plants and the al-Zour plant are now capable of producing 185m gallons a day between them. Full capacity will be reached only when the power stations are restored.

The destruction has at least given the government the impetus to upgrade the system. Western engineers say the network needed repair anyway because of poor maintenance over a long period.

The size of the final bill is forcing the government to look at ways of reducing demand and cutting costs. Mr al-Adasy says the government is considering a phased reduction of the heavy subsidies it pays on electricity and water bills. It may also introduce higher peak-level charges.

The timing of such measures might be difficult. The government has promised public sector pay rises of 25 per cent, but as Mr al-Adasy says: "What we give with one hand, we cannot take with the other."

## DEFENCE

## 'Backstop role' for the west

KUWAIT signed a military co-operation agreement with Britain this month, similar to a 10-year pact agreed earlier with the US. A deal with France, the third active western member of the Desert Storm coalition will follow soon.

None of these agreements - as each government is keen to emphasise - includes any wording committing the three allies to the automatic defence of Kuwait in the event of further aggression against the emirate. But that is not entirely the way Kuwait prefers to interpret these pacts. "Let's just say their perception is a bit stronger than ours," says an official from one signatory country.

The two deals so far signed, and the French one to follow, are essentially undertakings to conduct joint manoeuvres with the Kuwaitis, offer increased training to Kuwaiti forces and co-ordinate arms sales packages. The US pact also includes provisions to pre-position

tanks, armoured personnel carriers and artillery in Kuwait.

No one is in any doubt that Kuwait, which lacks either strategic depth or sufficient manpower for a substantial army, would have finally to rely on western assistance to repel another outright attack. But the western powers are determined that Kuwait should not need this as an excuse not to, first, steel its own domestic forces and second, to weld itself more effectively than before the war into a collective Gulf security arrangement.

Kuwait has, in fact, made a priority of rebuilding its armed forces, which were left depleted, disorganised and demoralised by Iraq's swift

invasion. A full reorganisation of the forces will be made following completion of a detailed US study to be presented to the Defence Ministry this month.

While details of the reorganisation, and therefore of the army's procurement needs, await the results of this study, it is already plain what will be required of Kuwait's rebuilt force: that it should be able to resist an aggressor for long enough to allow foreign reinforcements to arrive.

In practice, this would amount to holding out against Iraqi forces - which remain the likeliest longer-term threat to Kuwait - for two or three days. "If the army could hold out for seven days, it would be

incredible," comments one defence analyst.

But even this circumscribed ambition will require substantial work to achieve. To begin with, Kuwait must somehow find the manpower to fill an army which before the war boasted 20,000 men under arms, but which has slumped since to about half this figure following the government's decision to disband on grounds of questionable loyalty some 10,000 Bidoun, or stateless Arabs, who had made up the bedrock of the ground troops.

The Defence Ministry optimistically aims to build a total force of 30,000, partly by insisting more vigorously than before the war that Kuwaitis

actually perform their formally obligatory 18 months' national service - an obligation most Kuwaiti males have hitherto managed to circumvent. Although the government wants an army purely of Kuwaiti citizens - and at least 1,000 Kuwaitis have been recruited since liberation - a small number of Bidoun are, out of necessity, being readmitted into the force.

As part of the government's professed desire to see its forces armed with the latest and highest technology, Kuwait's ground forces will almost certainly purchase either Abrahams M1A2 tanks from the US or the British Challenger II, but a decision on which or how many is not expected until later this year. Defence analysts say estimates that Kuwait may purchase 200 tanks are, for now, broad guesses.

Kuwait's airforce has already received three of the 40 F-18 jets ordered from the US as part of a \$1.6bn order originally made in 1988 to replace the airforce's dated A4 Skyhawks and Mirage F1 aircraft. Refurbished bases to accommodate these aircraft will be ready by the end of this year. Earlier this year, the government awarded US companies contracts to repair the emirate's two devastated airbases under an overall \$81m foreign military sales package. Morrison Knudsen Corporation is to rebuild Ahmed al Jaber base, north of Kuwait City, in a \$24m deal, while George A Fuller and American International Contractors secured a \$18.5m contract to restore the Al-Salem base, south of the city.

However, while revival of Kuwait's own forces is in train, much less progress has been made towards securing what western governments insist Kuwait must see as its second line of defence - its Gulf Co-operation Council (GCC) allies.

A residual "Peninsular Shield" force of two brigades, one from Saudi Arabia and one from a mix of GCC countries, has remained in central and

southern Kuwait since the war. However, this small force falls far short of representing the sort of Gulf security arrangement which the US and Britain formally insist their own defence pacts should only "underpin".

Since the effective demise of the Damascus Declaration, which aimed after the war to bond the six GCC states, Syria and Egypt into a joint Arab force, GCC states have shuffled chiefs of staff around the region in an attempt to construct some sort of strategic defence structure for the region.

So far, however, this has

yielded little more fruit than a string of studies.

Oman's suggestion of creating a pan-Gulf force of 100,000 remains technically on the books but suffers from disagreements over command and control structures - and the potentially fatal question of where the thinly-populated Gulf states will find that many soldiers.

While Iraq remains strategically crippled and two US aircraft carriers remain in or around the Gulf just in case, Kuwait and its GCC fellows have time to mull over details of a joint arrangement.

Continuous US and British military manoeuvres in the Gulf, as part of the joint military agreements, will also underline what western defence officials prefer to call their "backstop role".

However, the US and Britain, in particular, are pressing Kuwait and the other

Gulf states hard to make a go of collective defence. Both governments have also made a point of highlighting to Kuwait that whatever the immediate threat from Iraq, no country in the Gulf should lose sight of the fact that Iran has quietly been busy re-arming itself for the past year.

Iran's rearming may offer no immediate threat in itself, but as one military expert puts it: "In a year or two, no-one will be able to make a single decision in the Gulf without considering the Iranian reaction."

Given Iran's distaste for any western military presence in the region, Britain and the US are seeking to impress on Kuwait that there may be a longer-term political cost to being too overtly dependent on its western protectors - not least to those protectors themselves.

Mark Nicholson



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Sheila Jones joins ordnance clearance experts in the desert

## A lucrative operation

"TREAD in my footsteps. There should be no mines here but I'd rather not take the risk."

Paddy Blagden leaves a trail of large footprints in the sand. This is the southern triangle of Kuwait, about 1,500 sq km of desert stretching from the outskirts of Kuwait City down to the Saudi border. It is alive with mines, unexploded bombs and live ammunition.

Mr Blagden is in charge of the British team making safe the second-largest of Kuwait's six sectors, divided up for clearance after the war.

Iraqi soldiers laid millions of mines across the desert. Crates of live ammunition are piled up at Iraqi dug-outs alongside anti-aircraft guns. Unexploded Rocketeers are strewn about. On a southern desert road about 50km from the Saudi border, a large, silvery bomb is up-ended in the sand.

So far, only a few priority areas have been cleared: Kuwait City, the northern beaches and, most importantly, the oilfields.

Kuwait City was littered with grenades and small arms ammunition. It was cleared by the allied forces soon after the occupation ended but not before hundreds of Kuwaitis, including many children, were killed and maimed by the munitions left behind. It could be another two years before the whole country is cleared.

It is a lucrative operation for the handful of ordnance companies and the many sub-con-

tractors that have won the clear-up contracts. And it is the first time such work has been handed over to private companies.

Royal Ordnance, the British Aerospace subsidiary, was awarded the contract to clear the British sector by the Kuwaiti government last year. The contract, which also includes part of Kuwait City, the beaches, oilfields and Failaka island off the north-east coast, is thought to be worth about \$100m.

The biggest contract - worth about \$200m

**The British, French and US authorities are responsible for the three most heavily-mined sectors**

— was awarded a few months ago to Conventional Munitions Systems of the US against competition from three other US companies, UXB, States International and Olin Ordnance. CMS is still mobilising its team for the US sector and it has yet to start the clearance.

The British, French and US authorities are responsible for

the three most heavily-mined sectors in central, southern and western Kuwait. The government has contracted the Bangladeshi, Pakistani and Egyptian authorities to make safe the three sectors in the north and north-west. Bangladeshi soldiers are also conducting quality assurance sweeps of areas that have been cleared.

Royal Ordnance was the first to win a clearance contract and by February this year it was the only company to have started work.

"We were required to act quickly because of the oilfields," says Mr Blagden. "The big priority in Kuwait was to get revenue coming in again. Before any firefighters were able to get to any burning well head, the access to that well head had to be cleared. It was an appallingly difficult job."

The oil wells were ablaze, belching out dense black smoke, fumes and hot oil droplets. The surrounding desert was a mass of oil lakes and congealed sand. "It was what I imagine hell to be like."

The company started work on the oilfields in May and access to all the wells was cleared in time for the last oil

fire to be put out in November. The contract was the subject of hefty overrun penalties. Royal Ordnance has also cleared a 27-kilometre stretch of northern beaches down to the port of Shuaibah. These were fortified with trenches and barbed wire entanglements strewn with anti-personnel mines.

Royal Ordnance has subcontracted the land reinstatement work, such as refilling cleared trenches, to Marr-Bell of the US.

Work started this month on the southern triangle which the company is committed to finishing by the end of June. Here, the Iraqis laid 84 linear kilometres of mines which stretch out in neat rows as far as the eye can see. In all, there are about 1m mines to be cleared, a mix of anti-tank mines and the small, spiked anti-personnel mines known as Bouncing Betties (the Valmara V-89. It jumps two feet in the air on impact, then explodes).

Failaka Island was cleared by soldiers from the Royal Engineers under Royal Ordnance contract last year.

Now deserted and without power and water, the island was used as an Iraqi military base. It used to be a smart holi-

day spot for Kuwaiti day trippers. About 550 families lived there.

Most of Failaka's buildings and installations are badly damaged and looted. Some are scattered with Iraqi equipment: maps, a radio transmitter and remnants of military uniforms.

In one house, a recently installed bathroom suite is intact. Toys, books, clothing, crockery and family photographs are in heaps on the floor.

The only people on the island now are the ordnance and reconstruction workers.

Virtually all the men working on Kuwait's clearance are ex-military, employed on short-term contracts. Many are former combat engineers and explosives experts.

In the past six months, Royal Ordnance has laid off about 100 British workers and recruited Gurkha engineers at about half the wages.

The company says the layoffs were partly for commercial reasons. It adds that all its current workers are qualified for the work they are doing.

It now employs 250 workers, against 440 six months ago.

Mr Steve Macpherson, a Glaswegian in his 30s, is on



Royal Ordnance experts Chris Snape (left) and Andy Jones dispose of Iraqi mines abandoned on a beach in Kuwait City

contract for Passive Barriers, a UK explosive ordnance disposal company which has been operating in Kuwait as a subcontractor since April last year.

"I came here mainly for the money," he says. "If I stay a full year I should have about \$20,000 to take home. I'll pay the mortgage."

Mr Macpherson, a former mines instructor with the British army, has just finished clearing Failaka harbour, dredging the water for stray bombs and hauling out battered pleasure boats.

"I'd rather be sifting this much than unemployed at home," he says. Passive Barriers has picked

up 20 or so small contracts, mainly clearing areas to enable repairs and reconstruction.

It has cleared cable and pipeline areas, water pumping stations, ports, buildings and private patches of land.

The company had hoped to get one of the large contracts to clear a whole sector.

"We haven't done as well as I had hoped," says Mr Brian Ashwell, Passive Barriers' Kuwait director. "The contracts have been worth thousands rather than millions although it has been worth our while being here."

Even with the clearance operation barely underway, a complicated network of contractors and subcontractors has sprung up.

Some companies complain of a lack of central control and regulation.

"There should have been a centralised operation and there wasn't," says Mr Blagden. "I think the Kuwaiti MoD decided it would be expensive and was not really necessary."

"There is relatively little control over the way in which ammunition, in particular, is removed from Iraqi positions and stored. It's extremely dangerous."

There have been several explosions at central munitions dumps (but no deaths or serious injuries) and there is likely to be growing pressure from clearance companies for central regulation as more operators start work in the months ahead.

## ■ COMPENSATION

## Lots of uncertainties

ADEL OMAR ASEM has got the longest job title in Kuwait. He is probably one of the country's busiest people.

His desk is awash with paper. His telephone is ringing. He signs another document and takes a sip of tea. "I will be more than happy when this is all over," he says.

Mr Asem is director-general of the Public Authority for the Assessment of Compensation for Damages Resulting from Iraqi Aggression. It is called PAC for short.

The agency was set up in November last year to assemble Kuwait's claim against Iraq for damage and loss during the war. It is an enormous and bureaucratic operation that will take about two years to complete.

On February 15, Mr Asem's department sent out 600,000 claim forms. That is roughly one for every Kuwaiti citizen. Foreign businesses and expatriates seeking damages must file claims through their embassies or national authorities.

This first batch of forms in Kuwait represents Phase 1 of the operation. It covers individual and personal loss and injury. Phase 2,

which is scheduled to start in April or May, covers corporate and government claims.

It is likely to be the biggest ever claim against a single country.

"Kuwait's oil losses alone could amount to \$40bn-\$45bn," says Mr Asem. "Oil is the biggest component, but there has been speculation that the total could be as high as \$100bn to \$200bn."

More conservative estimates put the likely total at around \$40bn, about half of which is accounted for by oil losses. This includes produc-

**Aside from war damage, there was widespread and systematic looting of private homes and businesses**

tion lost during and after the Iraqi occupation and the cost of repairs to oil wells and installations.

Aside from war damage, there was widespread and systematic looting of private homes and businesses. About 50,000 cars were sto-

len, the gold souk (market) in Kuwait City was stripped and an estimated \$300m worth of gold bars and foreign currency was taken from Kuwait's central bank.

Computers went from offices, books from schools, incubators from hospitals and spare parts from cars and factories.

The reparations process is governed by the United Nations, which will scrutinise the final claims package. In all, the UN is expected to receive 2m individual Kuwaiti claims.

Each of Kuwait's government ministries is likely to file a claim. "Most of the telecoms stations, switches, satellite equipment and so on were totally destroyed," says Mr Asem. "There isn't a single school that hasn't been destroyed or looted. Power substations and water

facilities, museums, hospitals and libraries have all been damaged in some way. Business claims include damage and looting as well as lost earnings and opportunities. Small businesses suffered greatly."

Western loss adjusters, financial experts and lawyers are advising PAC on the claim before it is submitted to the UN, which will make the final demand against Iraq.

Last year, the Kuwaiti government awarded the lucrative claims management contract to the US arm of accountancy firm KPMG Peat Marwick. The firm won the contract - worth tens of millions of dollars - against competition from one of its own affiliates, KPMG Peat Marwick of the UK, which had put together a consortium bidding for the whole package.

"It caused a bit of a stir on both

sides of the Atlantic," according to a western observer in Kuwait City. "It is such a big firm that apparently the right hand didn't know what the left was doing."

Legal advisers on the claim are Cleary Gottlieb Steen and Hamilton of the US, and Clifford Chance of London, which was originally part of the UK consortium.

KPMG's staff of 90 in Kuwait City share offices with PAC, which will employ about 370 people at the height of the operation.

Firms will be asked to submit new tenders for the second phase covering corporate and government damages.

The claim is split, under UN guidelines, into six categories: individual expenses and losses incurred through departure from Kuwait after the invasion; death and injury;

personal and private loss of less than \$100,000; personal and private loss of more than \$100,000; corporate claims; and government claims. The Kuwaiti authorities, and any other national governments seeking damages, have 18 months from January this year to submit their claims, although the UN is likely to be flexible about the deadline because of the size of the task.

The UN has stipulated that claims made by private individuals should be processed first because of the scale of personal hardship. In

**Even if Iraq pays into the war damages fund it is likely to be several decades before all claims are paid**

particular, the Security Council has said that foreign nationals, most of whom lost everything overnight as they fled Kuwait, should be the first to get money from the UN's proposed compensation fund.

Putting together the Kuwaiti

claim will cost the government about \$50m-\$60m, money it hopes to recoup from the UN fund.

Soon after the war, the Security Council told Baghdad that it would supervise Iraqi oil sales to ensure that 30 per cent of the revenues went directly into the war damages fund. Iraq is refusing to accept the UN plan. Even if Iraq pays into the fund it is likely to be several decades before all claims are paid.

"We have received assurances from the UN Security Council on the principle that Iraq, as the aggressor, should be made to pay," says Mr Asem. "That does not mean we can all sleep comfortably. There are still lots of uncertainties about whether Iraq will pay into the fund."

But he is sanguine about the outcome. "This is not simply a matter of compensation. It is documentation for future generations. It is hard to make any kind of judgment about whether or not we get all the compensation we want, but this operation is something for the future."

Sheila Jones



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	1991 £000	1990 £000
<b>PROFIT BEFORE TAXATION AND EXTRAORDINARY CREDIT</b>	10,075	5,535
<b>CAPITAL BASE</b>		
Share Capital	100,000	100,000
Reserves	21,012	10,358
Subordinated Loans	60,385	58,954
	181,397	169,312
<b>BALANCE SHEET TOTAL</b>	1,723,341	1,959,604

▲ NET PROFIT, AFTER TAX AND EXTRAORDINARY CREDIT OF £10.7M

▲ CAPITAL AND RESERVES EXCEED PRE-INVASION LEVELS

▲ CAPITAL RATIOS REMAIN STRONG (Tier 1 at 11.7% - Tier 2 at 17.0%)

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## KUWAIT 6

Mark Nicholson reports on the oil industry

# Heroics speed recovery

DURING the days of soot-laden skies last summer it appeared inconceivable that Kuwait should not only have extinguished all 727 of its burning oil wells, but be on target to restore production to pre-war levels by the end of 1992.

However, as the emirate's rivals-cum-fellows in Opec know only too well, Kuwait is firmly on course to pumping more than 1.5m barrels a day (b/d) of oil - its last Opec quota - by the year's end, thanks largely to the engineering heroics of the international coalition of fire-fighting teams which doused the last blazing well in early November.

The subsequent restoration of output, which began in June last year, is accelerating well ahead of a targeted rate of 50,000 b/d a month. Output next month, says Mr Homoud al Rqobah, the oil minister, will be 710,000 b/d, including the emirate's 150,000 b/d share of output from the joint Kuwaiti-Saudi Arabian neutral zone, and will hit 930,000 b/d by June.

To some extent, this speedy restoration is possible because, despite the graphic horror of the blazing wells, oil engineers have discovered that a good number of Kuwait's total of 1,080 wells are more or less serviceable. Mr al Rqobah has said that 66 per cent of the Iraqi-detonated wellheads can be readily repaired, while more than 100 wells survived the Iraqi completely intact. Present output is being achieved from just over 120 wells. Repairs on up to 60 of the least-damaged wells in the southern



Oil minister Homoud al Rqobah: We need time

Burgan field, Kuwait's biggest, are taking as little as two to three days each.

Bechtel, the private US engineering group, is co-ordinating the recovery in the southern fields as part of its open-ended contract with the Kuwait Oil Company (KOC), while the Kuwait British Group, a consortium of AMEC, Wimpey and Taylor Woodrow from the UK, are repairing the pipelines and gathering stations in the main northern fields.

Some re-drilling has already begun and, again, the Oil Ministry is optimistic that this will present few problems, particularly given the friendly geology of the main Burgan and Wafra

fields where oil lies close to the surface beneath uniformly soft rock. Some 28 wells have already been re-drilled in the southern fields, each taking little more than 12 to 15 days each. Such drilling as will be necessary in the north, where none has yet begun, is likely to take one or two months per well, given the region's tougher and more complex geology.

KOC has so far commissioned Santa Fe, the Kuwait-owned engineering group, to co-ordinate the drilling programme, with a target of 100 new wells sunk by the end of June and perhaps a further 200 over the next two years.

The government aims to restore output capacity to at least 2m b/d by late 1993, compared with sustainable capacity of 2.5m b/d before the war, and is hinting that it may consider increasing this capacity eventually towards at least 3m b/d. However, its present thinking is to hold production at a ceiling of about 1.8m b/d-1.7m b/d, once it is attained, for six months. This would enable studies into possible damage to the reservoirs caused by the well fires. "We're like a man just recovering from a disease," says Mr Rqobah. "We need time to recover."

To date only superficial studies into reservoir damage have been conducted, although oil engineers report that oil pressure in wells already functioning in the southern fields is unchanged from pre-war levels. However, some analysts,



A Canadian firefighter uses a bulldozer to help douse one of the last well fires extinguished

including the local Al-Shall economic agency, have suggested that the race to restore output is drawing damaging amounts of water into the oil reservoirs - a charge disputed by the Oil Ministry. "Our studies show that there is no problem with the reservoirs up to 1.5m b/d or 1.7m b/d; after that we will have to wait and see," says Mr Rqobah.

Restoring Kuwait's downstream operations, however, appears to be proceeding with much less urgency and some western diplomats suggest that the necessary steps to mend the country's refining capacity and revive its petrochemical ambitions may be hampered by bureaucratic cramp. Short-listed contractors for the management contract to

oversee full repairs to the country's three refineries - favourites among which are Foster Wheeler, Fluor Daniel and Brown & Root of the US - have been waiting since early last Autumn for a final decision, which government officials say is due any week now. The government is nevertheless expecting to restore 650,000 b/d of refining capacity,



Engineering heroics: Texan firefighter Red Adair, 76 (centre)

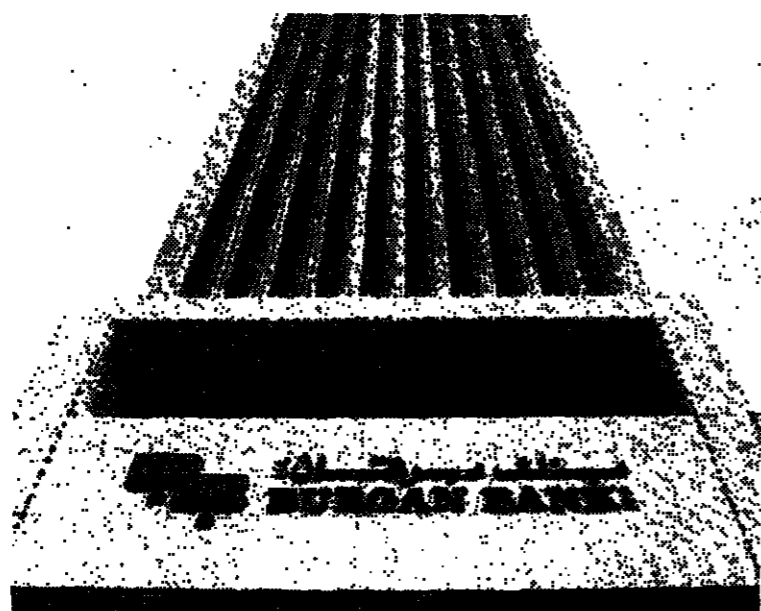
from a pre-war ceiling of 730,000 b/d, by early next year. Early repairs made under Bechtel's auspices have revived 170,000 b/d of capacity at Mina Ahmadi and 100,000 b/d at Mina Abdulla - enough to meet Kuwait's domestic power and petrol needs. Shuaiba, which was severely damaged by the Iraqis, remains moribund for now.

The government has also, through the state-owned Petroleum Industries Corporation, suggested it wants to proceed with a pre-war \$2.5bn project to build a petrochemicals export plant at Shuaiba, with a 750,000 tonnes-a-year ethane cracker. No formal tender for the project, which may be slightly modified from original proposals, is expected for several months, however.

The overall cost of Kuwait's

oil reconstruction programme, which aside from its ambitions in defence procurement make up the biggest slice of its total reconstruction bill, is still the subject of informed guesswork - particularly since no-one appears able to assess exactly what Bechtel's clearly lucrative deal with Kuwait will finally amount to. Mr Rqobah says the oil fires cost \$2bn to extinguish, including the purchase of \$600m worth of heavy equipment which will be resold in what amounts to a spectacular boot sale. He has put the industry's total reconstruction bill, over the next three years, at \$10bn-\$15bn, although external government and industry observers suggest the final figure may be little more than \$8bn, including the emirate's petrochemicals plan.

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## TELECOMMUNICATIONS

# Post-war battle for market share

KUWAIT'S Ministry of Telecommunications faces a dilemma: should it repair and update the country's wrecked telecoms network or should it throw the lot out and start from scratch.

The former would be cheaper and it might be all the network needs. The latter might be a better long-term bet, particularly as the government gears up to privatisation in the next few years.

A choice between the two is essentially what is on offer from the two main protagonists in the post-war battle for market share, Ericsson of Sweden, and AT&T of the US. The government could take a mix of suppliers, although dealing with three or four separate operators and systems would require different spare parts and technical expertise.

Damage to the country's telecoms network was immense. It is likely to cost the government about \$400m to repair and modernise the network. The work will take two to three years to complete. Temporary work on the system has restored domestic and international phone links, but the network is only "limping along", as one telecoms company puts it.

AT&T moved swiftly into the breach to patch up the system in the early days after the war. Now it is hoping to build its market share at the expense of Ericsson, which had just over 90 per cent of the pre-war market.

It is likely that AT&T is looking to supply about a third to a half of the post-war market. A third big operator, Alcatel, of France, is also a likely contender for a large chunk of the market.

AT&T has enjoyed only a short relationship with the Telecoms Ministry but it has built a lot of good will in that time.

It provided a new exchange and international lines via a US satellite within weeks of the war ending, enabling the

**Ericsson carried out repairs to exchanges immediately after the war and its engineers are training Kuwaiti technicians**

first post-war international phone calls.

Ericsson, on the other hand, has a relationship going back several decades and the ministry says it has been more than happy with the service.

The company also carried out immediate repairs to exchanges immediately after the war and its engineers are training Kuwaiti technicians to continue maintenance of the network.

The Swedish company says that its old electro-mechanical equipment will have to be fully replaced, but that its second-generation AXE advanced exchanges, many of which were built in the late 1970s and early 1980s, can be fully updated.

"There is no point in the Kuwaiti government spending too much money on what they don't need," says Mr Rolf Hedström, Ericsson's technical manager in Kuwait.

AT&T says more radical surgery is necessary and wants to modernise the whole network virtually from scratch, with AT&T equipment.

Mr Abdul Aziz Al-Ayoub, under-secretary at the Telecoms Ministry, says that both companies have as good a chance as any when the big contracts come up for tender.

Some of the contracts to replace or repair 11 of the country's 28 exchanges have been awarded, but a large part of the government's investment over the next few years has still to be awarded.

The impetus for modernisation has been driven not only by war damage, but also by the government's plans for privatisation. It wants to modernise the network over the next two years before it floats the new company.

This includes conversion to a fully digitalised system - about half the network still operates on the old analogue technology.

Among the contracts awarded so far:

● GPT of the UK has supplied its System Z system in a deal worth about \$8m to replace one of four transit tandem stations at South Sabahia. This connects the south with the rest of the country. GPT is also supplying an initial 200 pay phones for nearly \$1m.

● Alcatel of France has won a \$8.57m contract to supply equipment to four switching stations. It is also supplying \$4.2m in fibre optics and a \$4.06m microwave system to link the switching centres.

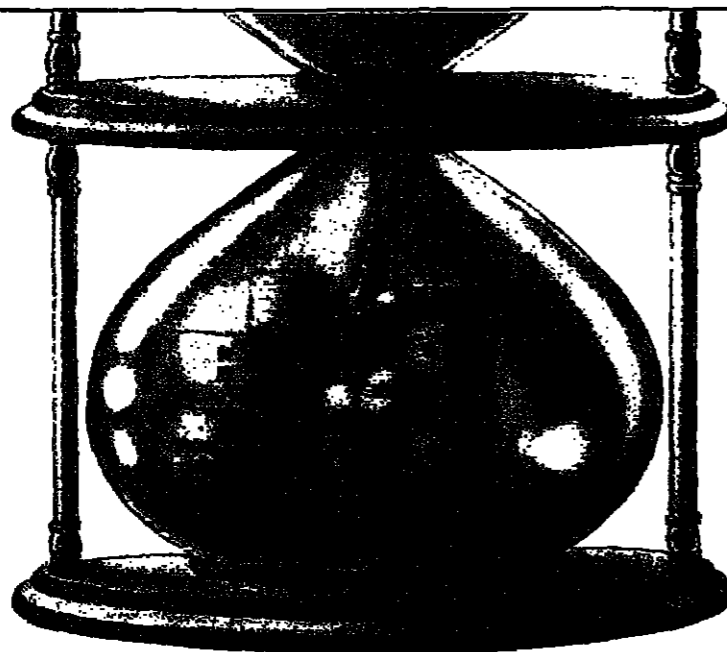
● Sprint, of the US, is supplying value added networks, including electronic mail and conferencing.

● TCIL, the Indian telecoms consultancy, is to repair and replace \$8m worth of telephones and cables.

Ericsson and AT&T have both swept up various contracts in addition to immediate repairs and maintenance. Ericsson is going ahead with a new contract to provide a mobile phone system of up to 30,000 lines.

AT&T has also squeezed into the private market. The company says it is now supplying 80 per cent of the country's post-war PABX private exchanges to Kuwaiti hotels and businesses.

The deals so far are small beer against the investment to come and Kuwait's rival suitors may be just warming up for a long and difficult courtship.



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Do Not Forget Our POWs

# European finance and investment: Overview

SECTION IV

Wednesday February 26 1992

Self-preservation is the watchword for financial institutions as they count the cost of the recession and brace themselves for stiffer competition in the European single market, writes Robert Peston

## Consolidation not expansion

AS THE final countdown to the establishment of a single market in the European community begins, there is a distinct lack of excitement among many of Europe's financial and investment companies.

Grandiose plans to expand all over Europe are out of fashion. Even the strongest and most ambitious financial firms – such as Germany's Deutsche Bank and the UK's Barclays Bank – are consolidating their existing European networks rather than aggressively acquiring new operations.

Most financial institutions are tending their gardens. Their preoccupation in the short term is with preserving core domestic operations, which became over-extended during the late Eighties and are now suffering the ill-effects of a widespread recession.

In many cases, their capital resources have been depleted by losses and they need to enhance their profits to rebuild their balance sheets. Paradoxically, this preoccupation with domestic markets is a response to proposals for European political and economic integration. Over the coming years there will be increasing competition between financial institutions based in different member countries, which will reduce the ability of these institutions to make near-monopoly profits from exploiting closed domestic markets. So, companies are doing their utmost to increase the efficiency of their home

operations to withstand this new competition.

Banks, insurance companies and securities companies are all making severe cuts in their labour forces. Indeed, rival institutions are carrying out similar cost-cutting plans dreamed up by a handful of international management consultancies. There is therefore a growing awareness that cutting costs is not sufficient. It is a zero sum game if every institution is doing the same.

Long-term competitive advantage will be won by those which succeed in improving their management and financial controls, which are often crude compared to industrial companies' controls.

The background to many banks' long-term problems – notably those in the UK and France – is that for the past few years they have used the big profits from their retail operations, serving personal customers, to cross-subsidise other businesses such as securities trading, lending to companies and a range of overseas operations.

Because these profits were so big, banks were under little pressure to "unbundle" the range of corporate and personal services they provided, to measure precisely how much capital was tied up in particular parts of the business and thus their profitability.

But the magnitude of these cross-subsidies has become apparent in the wake of big losses recorded by banks in

northern Europe on their lending to companies, notably property companies.

Substantial loan losses on corporate lending have been a feature of recent results disclosed by UK, French and Scandinavian banks. Many of these banks would be in serious difficulties without the bedrock of retail banking profits. One management issue for banks is how to improve controls over lending, to ensure they do not lend too much to dubious customers. However, progress in that respect will not be sufficient to guarantee a prosperous future for banks, since even retail banking profits are now under threat.

They have traditionally earned big profits by investing the interest-free deposits of personal customers. But over the past few years, banks – particularly those in the UK – have begun to pay interest on current or cheque accounts. This has led to an inexorable decline in the profitability of high street banking, which is likely to affect banks throughout the EC as legal barriers to competition are removed.

Technological change will reinforce this squeeze on retail profits. Branchless banking is already established in the UK, in the form of Midland Bank's First Direct subsidiary. If individuals become accustomed to doing much of their banking by telephone or using automated teller machines, then a bank should be able to expand relatively inexpensively, without acquiring branches.

The bottom line is that an enduring competitive advantage will be won by banks which succeed in analysing the costs and profitability of the many different products and services they provide. They could then use their capital to back only those businesses whose profitability is adequate.

Lloyds Bank in the UK has already demonstrated the benefits of such a strategy. In the Eighties, it eschewed low margin international lending and made no significant investment in securities trading, unlike its UK rivals. As a result, its value on the stock market is greater than all its domestic rivals other than Barclays, even though its balance sheet is around half the size of National Westminster Bank's.



In a similar way, Europe's insurance companies are being forced to concentrate on improving their core underwriting operations and increasing their efficiency.

Just as banks subsidised lending to commercial customers with profits from retail operations, so insurance companies have sustained loss-making commercial risks business – in which they insure the risks of large companies – with profits from their personal lines business and income from their investments.

However, in the past five years competition across the

board has increased substantially, depressing premium levels and increasing underwriting losses. Medium-sized players such as the French mutual companies and newcomers such as the UK's Direct Line, a Royal Bank of Scotland subsidiary, have undercut slower moving market leaders by selling direct to the public and reducing distribution costs.

A number of companies – such as AGF and Axa of France – are already chasing the business of Europe's biggest companies aggressively. In addition, the recently agreed

EC "non-life directives" pave the way for much sharper pan-European competition.

At the same time the downturn in the equity and property markets means income from investments and realised capital gains has declined. The fall in asset values has also damaged the industry's traditionally strong balance sheets.

So, today there is an increased emphasis on calculating the risk on policies and setting premiums accordingly.

A separate preoccupation of all financial institutions is to ensure the fairness of EC rules governing pan-European com-

petition. Many securities firms, for example, are concerned that a forthcoming capital adequacy directive, laying down conditions on the strength of balance sheets, will increase costs unnecessarily – and perhaps give an advantage to banks which carry out securities trading business in competition with pure securities firms.

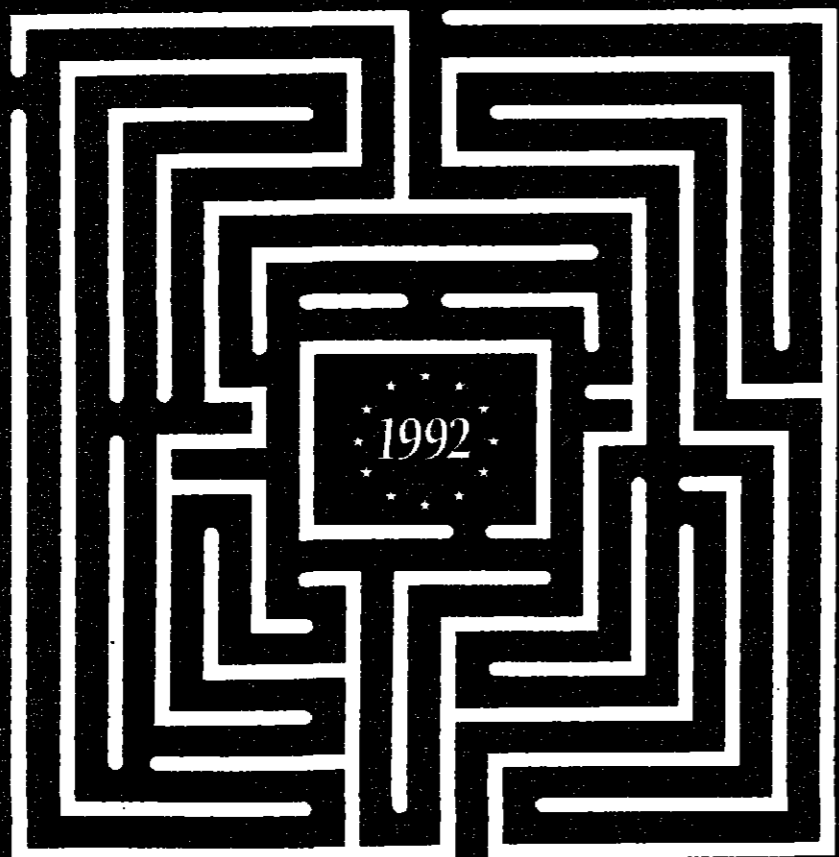
Finally, financial institutions are making plans to remodel their businesses to take advantage of the expected monetary union in Europe. The most obvious effect of a single European currency on banks would

be to deprive them of some of their lucrative foreign exchange trading business.

A single currency would be accompanied by a single benchmark price for investment products throughout the EC in the form of a common base lending rate. This would bolster the trend, already noted, to pan-European competition in retail banking and insurance services.

So a common theme for the Nineties is emerging. If expansion was the aim of most financial institutions in the Eighties, self-preservation is the watchword of today.

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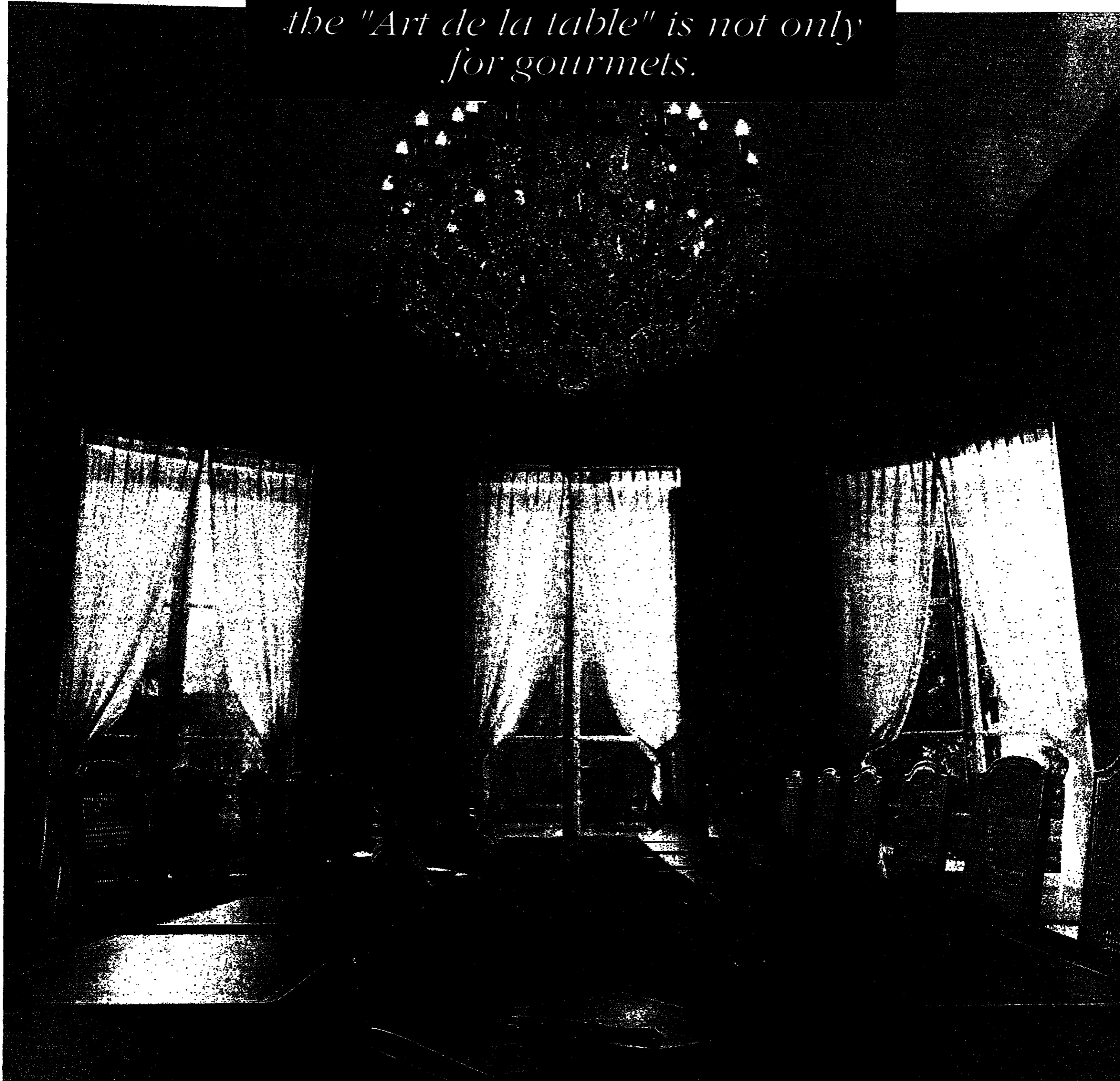


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## European finance and investment OVERVIEW 4

Talk about a single stock market continues, but...

## Vision of a grand strategy fades

A YEAR ago, the European Community's stock exchanges were at each others' throats in a thinly disguised squabble over whether or not to co-operate on developing a single European stock market. That venture - known as Euroquote - came to nothing, just as a similar project had been scrapped several years before.

This year, the diplomats of the Euro-financial world are going about things rather differently. There have been no grand visionary pronouncements about the shape of the European market to come, and no public tiffs. But the talking is going on just the same.

Three things are different this time around. The first results from the fall-out over the Euroquote debacle. This established that there was no point in the various exchanges getting together to build a new price-dissemination system for Europe when plenty of existing systems could either already do the job, or be developed to do it. Re-inventing the wheel was not something that the UK and Germany, in particular, wanted to do.

As a result, discussions are unlikely to return to the subject of how to build a common market infrastructure - at least not until there is agreement on what the common market should be. That gives any discussions that take place a more sensible grounding.

The second change has been an apparent cooling of hostilities over the EC's proposed Investment Services Directive. Initially conceived as a step to give non-bank investment firms a "single passport" to operate across the Community, the ISD had dissolved by last year into a fight over rival market structures.

One side was driven by the belief that investors are best protected if trading is centralised on to national exchanges, and trade publication rules tightened; the other, by the view that free-wheeling, cross-border professional markets (such as that for Eurobonds) thrive if left to take care of themselves. That ideological divide (some say it was fuelled by competitive pressures) now seems less stark than it did.

This is partly because cultural differences between national investment practices are being eroded. For instance, many continental stockbrokers are looking forward to the time

## International stock market comparisons turnover 1991 (£bn)

Exchange	Jan-Sep
Amsterdam	17,083
Athens	1,206
Brussels	3,143
Copenhagen	4,513
Dublin	1,203
Fed German exchanges	181,181
Lisbon	476
London	244,441
Luxembourg	82
Madrid	17,517
Milan	12,253
Paris	48,063

Turnover has been halved for comparison purposes.  
Source: Federation of EC Stock Exchanges

when they have home-grown pension funds similar to those in the UK or US. As investment patterns converge, regulations and market structure will follow.

Another reason is that competition is driving market practice closer, as national markets copy and (where possible) improve upon the most successful practices of other European centres. Take France, which has officially been in the vanguard of the fight to re-regulate markets: its stockbrokers have recently been agitating for greater deregulation.

**The more developed continental markets become, the more willing their national market authorities will be to discuss co-operation**

This is because Europe already has a thriving deregulated international share market, conducted by telephone in London and supported by the SEAQ International price quotation system. Its success seems to indicate that, whatever the regulatory rule, there will always be a demand for a professional market relatively free of externally-imposed regulations. If the EC outlaws it, then financial centres such as London say the market will simply move offshore and the EC will be the loser.

The future of the Investment Services Directive has yet to be resolved. But the forces at work behind the scenes suggest that tensions over this

issue could gradually ease.

The third change lying behind this year's discussions between European exchanges is the fact that individual national markets in the EC have moved ahead with their own market reforms. These have taken two broad forms: deregulation and automation.

Germany, for instance, has achieved some modest success with its new version of the Ibis screen-based dealing system. As more business is done on Ibis, so most banks are prepared to use it. One leading London house reports that it now does around a quarter of its German share business on Ibis, compared with 10 per cent a year ago. That reduces the need for Seag International.

The more developed continental markets become, the more willing their national market authorities will be to discuss co-operation. This is because, until now, their relative lack of development has left them feeling vulnerable to London: none has felt confident negotiating from a position of weakness.

Discussions about co-operation between national exchanges are already under way on a number of fronts. Work is in train to bring national listings requirements closer together to make it easier for companies to be listed across European markets, for instance. The national markets already pool statistics.

These developments could be the low-key forerunner to further co-operation. As Mr Rüdiger von Rosen, vice-chairman of the Federation of German Stock Exchanges, says: "They might not look as spectacular as Euroquote, but everyone is glad they are going ahead."

Reviving Euroquote is "definitely not a topic that will come up in 1992", he adds. But if market participants demand extra services, the exchanges say they are ready and willing to act. That could happen either through bilateral arrangements (such as the sharing of prices, which already happens between Paris and Frankfurt) or multilaterally, says Mr von Rosen.

Demand from investors and European companies may yet bring the exchanges back to the table to discuss a grander strategy. At present, though, it has yet to happen.

Richard Waters



Frankfurt stock exchange: some modest success with its new version of the Ibis screen-based dealing system

## Profile: BANCO DE SANTANDER

## Ambitions widen across the world

LAST YEAR Mr Emilio Botín, chairman of Banco de Santander, sold a bank network in Spain and bought a sizeable stake of a US bank. He told Santander's annual general meeting this month that he was "very satisfied" with the investment.

Santander is not going to disinvest from Spain in order to concentrate on global banking. The domestic market remains very much the foundation of the group's business and this was underscored by the opening of 107 Santander bank branches in Spain last year and by the launching, with considerable publicity, of innovative mutual fund products.

But 1991's twin developments, on the home and the external fronts, were a clear indication of widening ambitions. Mr Botín stressed to shareholders the growing internationalisation of the Santander group. By the end of last year, 36 per cent of the group's assets were based in a total of 27 foreign countries. The assets, a combination of subsidiary banks, finance companies and branches of the parent bank, contributed some \$200m, or 27 per cent to the group's consolidated profits.

The objective, according to

Santander's chairman, is to lift the non-Spanish contribution to the group's income, from diversified businesses in different countries, to 33 per cent of the total. With such a target in mind acquisitions and investment are more likely to be abroad than on the domestic front in the coming months.

Santander certainly has a treasure chest to draw on should it wish to buy. It raised its net profits by 17.5 per cent last year to Pta75.1bn (\$77m), increased its Return on Assets (ROA) from 1.30 per cent to 1.36 per cent, put aside Pta64bn as provisions for reserves, an amount that doubled the non-recurring profits generated last year, and augmented its BIS capital adequacy from 10.5 per cent two years ago to 13.2 per cent in 1991.

Last year Santander paid \$200m to acquire 13.5 per cent of First Fidelity Bancorporation, the 23rd largest financial group in the US, with an option to increase the equity to 23.4 per cent. It was the first Spanish bank to step meaningfully into the US market and a subsequent placement of \$150m preferential share on the American market fuelled expectations that it was seeking further properties in the US.

Other European banks acquiring US institutions have encountered mixed fortunes. Mr Botín attributed the success of the First Fidelity venture to three principles: Santander paid a satisfactory price for its equity, it limited its capital commitment and it supported a skilled management team which was already in place. Only two Santander



Emilio Botín: stressed the growing globalisation of the group

nominees joined the First Fidelity board and both were senior group executives with long track records in US banks.

Back at home, Santander sold Banca Jover, a subsidiary based in Catalonia, to Crédit Lyonnais, the French giant which had a year earlier bought another Santander network, Banco Comercial. The group still owns Banco de Murcia, a profitable 66-branch network in south-east Spain, and Mr Botín says that "if the price is right" he sees no reason why this subsidiary should not be likewise sold to either domestic or foreign buyers.

No less important to the international profile of Santander group are the manner in which it has built on its traditional activities in Latin America and the onset of wholly new business prospects in Europe that result from the parent bank's now four-year-old alliance with Royal Bank of Scotland.

The group was quick to focus on financial possibilities in Mexico where it earned goodwill by providing \$100m of financing in the privatisation of Bancomer, one of the largest privatisations in Latin America.

Last year, Banco Santander de Negocios, the group's merchant bank offshoot, was awarded the underwriting for the first Pta10bn issue of Matador bonds for the United Mexican States. There followed a second issue of Matador bonds for the Interamerican Development Bank at the end of last year and a third, last month for the Banco Nacional de Comercio Exterior de Mexico.

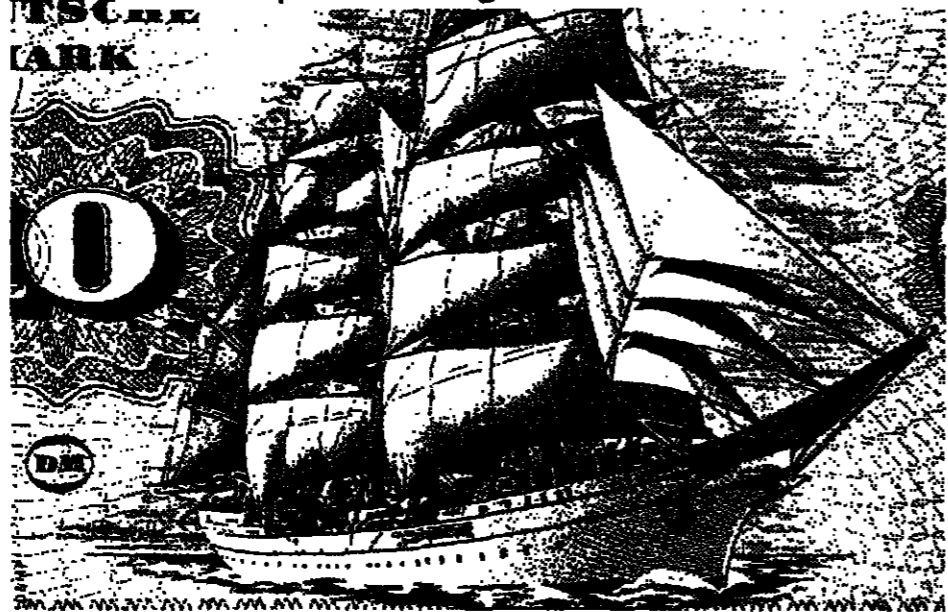
In what is evidently a strategy that the group will pursue in other Latin American climates, Santander broadened its retail banking activities in Chile by consolidating its life insurance and leasing subsidiaries and by setting up Chile's first factoring company.

In Europe the bank's pet project is IBOS, an acronym for Interbank On-line System. This electronic banking venture, has been developed jointly with the Royal Bank of Scotland, a bank in which Santander owns a 10 per cent stake under a cross share agreement, and Mr Botín hails it as the "most innovative and efficient (project) of the European Single Market".

A sophisticated update of an existing real-time banking interconnection between Santander and the Royal Bank of Scotland, IBOS has already been introduced into Banco de Comercio e Industria in Portugal and CC-Bank in Germany which are both jointly owned by Santander and Royal Bank of Scotland. The plan is to allow access to the system for as many banks as wish to join the network.

Tom Burns

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## Simon London on a change in the pattern of corporate funding

## Bond markets still buoyant

THERE was a marked change in the pattern of corporate funding in Europe last year as companies moved away from large syndicated bank facilities, favouring instead simple funding raised from investment institutions and simple bilateral bank loans.

Only \$84.4bn was raised in the European syndicated loans market last year, down from \$163.3bn in 1990. In part this reflects a fall in demand for bank finance as many western European economies moved into recession.

As a provider of stand-by lines of credit, for example, the syndicated banking market is the natural source of acquisition finance.

As acquisition activity has fallen away, so the number of companies seeking bid finance has decreased.

But the decline in syndicated lending also stems from pressure on banks themselves to rebuild margins following the excesses of the 1980s. This has increased the cost of bank finance, leading companies to examine other alternatives. Some correction in pricing was undoubtedly due. At the peak of the "borrowers' market" in the late 1980s, banks were fighting each other to participate in blue-chip corporate loans. Margins fell to an impossibly fine level.

In 1987, BTR, the UK industrial group, secured a 5-year committed funding at a margin of 7.5 basis points over the London interbank offered rate. The margin on similar transactions has since at least doubled, with fees rising by a similar proportion.

While the number of syndicated credits has fallen sharply, the bond markets have remained a ready source of finance for large European corporations.

In the international bond market alone, companies, governments and supranational agencies raised \$230bn last year, up from \$161bn in 1990

## Syndicated loans



Source: Eurocom Loanword and Notword

and \$210bn in 1989 - the previous record.

Like the weakness of the loans market, the buoyancy of bond markets is partly due to cyclical factors: as interest rates have declined in many economies, investors have been switching funds into bond market investments. While the cost of bank finance has risen, yield spreads in the bond market have fallen to attractive levels.

However, the cyclical buoyancy of bond markets also overlays a longer-term switch by companies in favour of funding provided by investment institutions such as insurance companies and pension funds.

Problems experienced by large companies, such as News Corporation, in restructuring complex banking facilities has underlined that over-reliance on a single source of finance can be dangerous. The diversification of funding is being pursued by corporate treasurers across Europe.

However, only the biggest companies can tap the public Eurobond market. Bond issues usually have to be of a certain size and liquidity - around \$150m equivalent - to attract investors.

One of the biggest challenges for corporate financiers has been to find a way for smaller companies to tap investment

institutions for debt finance. An increasing number of European companies are raising debt finance in the US, placing "tailored" debt securities with institutional investors. The size of US debt placements has grown: large European companies, such as Allied Lyons, have raised \$400m from a single placement of bonds.

The potential of the market for European companies is huge. Of the \$160bn new paper placed last year, foreign companies accounted for just 5 per cent.

UK companies have been most active, not least because UK accounting conventions are at least adjacent to US rules. However, following aggressive marketing by US banks keen to drum up business, companies from France, Holland and Germany are not far behind.

Those UK companies which have tapped the market - such as Pilkington and NFC - often use the proceeds to repay bank debt in an environment where bank credit is seen as more restricted and less reliable than in the past. Institutional funding has a utility over and above its competitiveness in terms of cost.

Within Europe, the private placement market has been largely replaced by the use of medium-term notes. An MTN programme allows companies

to issue bonds, usually of between one year and 30 years' maturity, under a single legal framework, placing securities denominated in a range of currencies as pockets of demand are identified. As in a commercial paper programme, liquidity is provided by a number of dealers banks tied to the programme.

New European medium-term note programmes set up last year amounted to \$42bn, up from \$31bn in 1990.

It remains to be seen whether European investment institutions will continue to embrace the MTN market with any enthusiasm. While MTNs offer investors a supply of assets tailored to match specific balance sheet requirements, the perceived illiquidity of the instruments has always been seen as a drawback.

These factors mean that most corporations, even the largest, remain reliant on bank facilities to manage short-term liquidity.

But styles of bank borrowing have changed. Bilateral loans are replacing complex, syndicated multiple-option facilities. A more diffuse pattern of funding is now seen as a prudent response to the retrenchment of banks.

BF, the UK-based oil company, has been seen as a bellwether of corporate treasury activity, last year replacing syndicated bank facilities with a series of bilateral loans, dramatically reducing the number of banks with which it deals. Other companies are following the same pattern.

Corporate treasurers note that there is an inherent refunding risk in having a loan facility falling due on one day. In addition, the largest companies realise that they have greatest leverage over lenders when business is concentrated with just a few key institutions. More bank lenders does not necessarily mean less risk.